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# Report of the Auditor General of Canada to the House of Commons

## Matters of Special Importance – 1999
## Foreword and Main Points

**November 1999**

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## Foreword and Main Points

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**November 1999**

*This November 1999 Report comprises 14 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, September and November 1999 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Gilbert Parent, M.P.
Speaker of the House of Commons

I have the honour to transmit herewith my annual Report of 1999 to the House of Commons, to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 30 November 1999

# Foreword

# Report of the Auditor General of Canada to the House of Commons for September and November 1999

## Foreword

I am pleased to present the September and November volume of my 1999 Report. This Foreword is followed by "Matters of Special Importance – 1999" and the Main Points from all of this year's chapters. Tabling of chapters 11 through 19 had been planned for September, but was deferred when the session of Parliament ended. This volume of my Report contains the following 23 chapters:

11. Agriculture Portfolio – User Charges
12. Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research
13. National Defence – Hazardous Materials: Managing Risks to Employees and the Environment
14. National Health Surveillance: Diseases and Injuries
15. Management of a Food-Borne Disease Outbreak
16. Revenue Canada – Goods and Services Tax: Returns Processing and Audit
17. Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit
18. Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services
19. Industry Portfolio – Investing in Innovation
20. Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries
21. Financial Information Strategy: Departmental Readiness
22. Attributes of Well-Managed Research Organizations
23. Involving Others in Governing: Accountability at Risk
24. The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing
25. Preparedness for Year 2000: Final Preparation
26. National Defence – The Proper Conduct of Public Business
27. National Defence – Alternative Service Delivery
28. Canadian International Development Agency – Financial Controls Over Projects
29. Federal Support of Health Care Delivery
30. Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices
31. Department of Foreign Affairs and International Trade – Delivery of Capital Projects in Four Missions
32. Follow-up of Recommendations in Previous Reports
33. Other Audit Observations

My Office issued the first volume of the 1999 Report in April, containing 10 chapters.

In addition, this year my Office has provided:

- an auditor's report and observations on the Financial Statements of the Government of Canada;
- an auditor's report and observations on the Statement of Transactions of the Debt Servicing and Reduction Account; and
- some 90 auditor's reports and observations on federal Crown corporations, federal departmental corporations and other entities, territorial governments, corporations and other entities and international organizations.

In 1998–99 my Office completed special examinations of Atomic Energy of Canada Limited, Defence Construction (1951) Limited, National Arts Centre Corporation, Via Rail Canada Inc., Pacific Pilotage Authority, Canadian Commercial Corporation, Canada Mortgage and Housing Corporation and Business Development Bank of Canada. Further, in the subsequent period of April to November 1999, my Office also completed special examinations of National Museum of Science and Technology Corporation, Standards Council of Canada, Canada Development Investment Corporation, Export Development Corporation, Marine Atlantic Inc., Enterprise Cape Breton Corporation and Old Port of Montreal Corporation Inc.

Under section 11 of the *Auditor General Act* I may undertake, from time to time, assignments at the request of the Governor in Council. No such requests were made in 1999.

# Matters of Special Importance – 1999

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 4 |
| **Two Cheers for the Nineties** | 7 |
| **Introduction** | 7 |
| A decade of great change | 7 |
| Modernizing government | 8 |
| **The budgetary process: Better but still not good enough** | 9 |
| A long-term perspective is long overdue | 10 |
| In a surplus environment, unconditional short-term targets based on pessimistic projections can lead to adverse consequences | 11 |
| A multi-year fiscal framework can promote fiscal discipline and sound spending decisions | 13 |
| **Without better information on the results of government programs, Canadians cannot know what they get for the taxes they pay** | 14 |
| **Better cost information is needed for improved performance** | 16 |
| **New governance arrangements require new accountability mechanisms** | 18 |
| **Revitalization of the public service is critical to the success of all other public sector reforms** | 19 |
| **Conclusion** | 21 |
| **Exhibits** | |
| 1 Ratio of Youth and Elderly to Working Age Population | 11 |
| 2 Budget Balance: Forecast vs. Actual | 12 |
| 3 Milestones in Performance Reporting at the Federal Level | 15 |
| **Chapter Supplement: Other Recent and Ongoing Audit Issues** | |
| Managing for sustainable development: Progress has been made but gaps remain | 23 |
| Managing Atlantic shellfish in a sustainable manner: Have we learned from past mistakes? | 23 |
| User fees: More than just government revenues | 24 |
| Grants and contributions programs: Management shortcomings persist | 24 |
| National Health Surveillance: Lack of collaboration impairs effectiveness | 25 |
| Millennium bug: no room for complacency | 25 |
| Opportunities for cost savings | 26 |

# Matters of Special Importance – 1999

## Main Points

As the 1990s are drawing to a close, it is an opportune time to take stock of where we are: to reflect on the things we have accomplished over the past decade and the challenges awaiting us in the next. In this chapter, I focus on developments within the federal public sector, looking in particular at the budgetary planning process, performance reporting practices, financial management systems, new governance arrangements and public service renewal. The 1990s witnessed progress in all of these areas, but shortcomings remain:

- The budget process is now more open than it used to be, but the two- to five-year budget horizon is much too short to take into account the longer-term implications of the fiscal choices we make, especially in the context of an aging population and the fiscal pressures it entails. Also, with the expiration of preset funding limits in 1998, there is no longer a mechanism in place to ensure ongoing review of programs.

- Nearly five years ago, the government announced a commitment to results-based management and reporting. While real progress has been made since then in clarifying program objectives and publishing performance measures, departmental reporting is still oriented mainly toward activities and products, and management is not sufficiently focussed on outcomes.

- The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost. The Financial Information Strategy (FIS), a government initiative currently under way, is designed to fill this gap. Implementation of this initiative has experienced delays, however. It needs to be expedited, if the government's own target date for this initiative is to be met.

- The delivery of government services is increasingly taking place through non-departmental mechanisms, often involving partnership arrangements with other governments or the private sector. Since no single minister is wholly responsible for results in such cases, these arrangements call for new ways of holding government accountable. Without appropriate accountability mechanisms, these arrangements can erode the ability of Parliament to scrutinize government and hold it to account.

- Government efforts to revitalize the public service have intensified recently, but the job is huge and far from finished. Gaps created by years of downsizing and restructuring remain. People management practices need to be modernized. And an aging work force portends immense staffing needs in the years ahead. Reform and renewal of the public service may well be the government's biggest challenge.

The 1990s have been a decade of transition in government. As we enter a new decade, we must aim to consolidate our achievements and continue moving forward. Building on the foundations of the past decade, we can succeed in passing on to posterity a stronger Canada, as our forebears did for us.

## Vision

*We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.*

## Mission

*The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.*

## Elaboration of Mission

*In achieving our mission, we want to make a difference by promoting:*

- *a fair and frank accounting of government's stewardship of financial and other resources*
- *efficiency and productivity in the public service*
- *cost effectiveness of government activities*
- *collection of revenues owed to the Crown.*

*Other effects we want to produce through our work are:*

- *objective assurance on matters found to be satisfactory and unsatisfactory*
- *compliance with authority*
- *deterrence of fraud and dishonesty.*

# Two Cheers for the Nineties



## Introduction

Writing in this space in 1995, at the midpoint of the 1990s, I wondered how the decade would eventually be remembered. I speculated that either "uncertainty" or "transformation" might describe Canada in the 1990s, depending on how we responded in the remaining years of the decade to the issues generating anxiety at that time: constitutional disputes, fiscal difficulties, technological disruptions, globalization.

Looking back now from the perspective of 1999, I think it is fair to say that we have made solid progress in tackling these issues. Not that there aren't still concerns. Our journey is not finished. But I believe that, on balance, "transformation" will likely trump "uncertainty" in the history books as a byword for the nineties, and the decade will be deemed to deserve two cheers.

**On balance, "transformation" will likely trump "uncertainty" in the history books as a byword for the nineties.**

In what follows, I concentrate on developments in the federal public sector, an area where, in my view, the decade was pivotal.

### A decade of great change

Canada's federal public sector has experienced profound changes in the 1990s. We entered the decade with huge budget deficits and widespread concern that Canada was courting financial crisis. Today, as the decade draws to a close, the budget is in surplus and the public debate is over how to use the fiscal dividend. The federal government work force, at 220,000 (excluding personnel in Crown corporations and the military), is approximately one-fifth smaller today than it was at the beginning of the decade. In December 1990, the government released a blueprint for the renewal of the public service, calling for fewer centrally prescribed rules, greater freedom for departmental managers to manage their departments and more authority for front-line employees. Today these plans are, in large measure, fact — although the journey begun 10 years ago is far from over.

Similar changes have occurred over the past decade in many other jurisdictions, both in Canada and abroad, reflecting the influence of common forces. Among these forces are stronger demands on governments to operate

efficiently, and new possibilities — created by the information revolution — to reorganize the way government works.

One source of pressure for efficient government is a better informed and more demanding public. In part, this is a result of faster communication in a wired world. In part also, slow economic growth and rising taxes since the mid–1970s have strained household budgets. Families forced to tighten their belts to make ends meet are likely to look closely at how their governments spend and to insist on better value for money in the provision of public services.

**Improving performance has become a pressing need for governments in the closing days of the 20th century.**

The huge buildup of public debt over the past two decades adds to the pressure for more efficient government. With a large proportion of government revenues being diverted to servicing the debt, money spent on providing services must go that much further to maintain their level and quality without resorting to higher taxes. Improving performance has thus become a pressing need for governments in the closing days of the 20th century.

At the same time, developments in information technology are creating new possibilities for governments to respond to that need. Advances in computing and communications are making it easier to disseminate information and consult with citizens, fostering more open and consultative government. They lower the costs of transacting with outside parties, co-ordinating activities at a distance and monitoring performance, thereby favouring new forms of service delivery over traditional means. They call for a highly skilled and adaptable work force, which requires new and innovative people management practices for optimal performance.

## Modernizing government

These developments are occurring in most Western nations and are contributing to a fundamental shift in the way we view government, what it does and how it does it. The traditional, bureaucratic model of public management — centralized, secretive, hierarchical — is increasingly seen as inadequate to the times. While a clear alternative to the traditional model has yet to emerge, prominent features of the new generation of public management include:

- a more transparent and forward-looking budgetary process;
- a decentralized and results-based approach to management;

- greater reliance on outsourcing and partnerships with other organizations to deliver services; and
- a more incentive-driven and flexible government work force.

Where does Canada's public administration figure in this global revolution in public sector governance? What changes are needed to ready it for the next century?

These are the questions I take up in this chapter, looking particularly at modernized budgetary processes, improved results-based information, new accountability mechanisms and public service revitalization. Other issues that are not directly related to the theme of modernizing government but that I consider important are highlighted in a supplement to the chapter.

## The budgetary process: Better but still not good enough

The way the government puts its budget together has changed significantly in the 1990s. Central to this change have been the pre-budget hearings held in the fall by the House of Commons Standing Committee on Finance. I called for such hearings in my 1993 Report, and I am pleased to see them become part of the regular budget process. In my view, they represent one of the most significant budget reforms in decades.

The hearings provide an excellent opportunity to focus attention on budget issues and to involve the public in decisions about budget matters. They receive wide publicity, and thus help to improve the public's understanding of the financial constraints and trade-offs the government faces in making fiscal policy. They allow the government to test proposals it is considering and to receive feedback from the public and from Parliament before including such proposals formally in the budget. And they can help mobilize public support for change, by including Canadians at large in the decisions. The hearings, together with the background documents provided by the Department of Finance to support them, have resulted in a much more open and transparent consultative process, consistent with best practices in other jurisdictions.

In other respects, however, the federal budget process lags modern practices elsewhere. In particular, it is still not sufficiently forward-looking, the focus on short-term surplus targets is too narrow and, with Program Review completed and immediate fiscal pressures behind us, there is no longer a mechanism in place to encourage ongoing review of programs.

## A long-term perspective is long overdue

I have long been calling for the government to provide long-term fiscal projections as part of the budgetary process. I remain convinced that long-term fiscal projections are necessary to counterbalance a natural political tendency to focus on the short run.

Long-term fiscal projections are necessary to counterbalance a natural political tendency to focus on the short run.

In recent years, the government has been producing only two-year projections. In his fall fiscal update released earlier this month, the Minister of Finance for the first time provided five-year forecasts of government revenues and expenditures, based on an average of private sector forecasts. Extending the fiscal outlook from two years to five is an important step in the right direction. But I believe that it still falls short of what is needed for a fully informed debate on the budget choices we face and the implications that follow from them. For that, we need information on Canada's longer-term fiscal outlook as well.

Increasingly, other countries are providing the long-term budget frameworks that enable legislatures and the public to make informed choices about their future. Since long-term projections are necessarily speculative, they should not imply a government commitment to the precise outcomes projected. In the United Kingdom, for instance, where long-term fiscal projections are mandated under the *Code of Fiscal Stability* enacted last year, these projections are clearly labelled as "illustrative". In New Zealand, where similarly long-term projections are required under the *Fiscal Responsibility Act,* the Minister specifies that these projections "are not fiscal forecasts. They indicate what the fiscal position might be under alternative assumptions." The value of such projections lies in making the long-term consequences of fiscal policy more explicit, both to Parliament and the public, and in providing early warning of adverse fiscal trends and lurking expenditures.

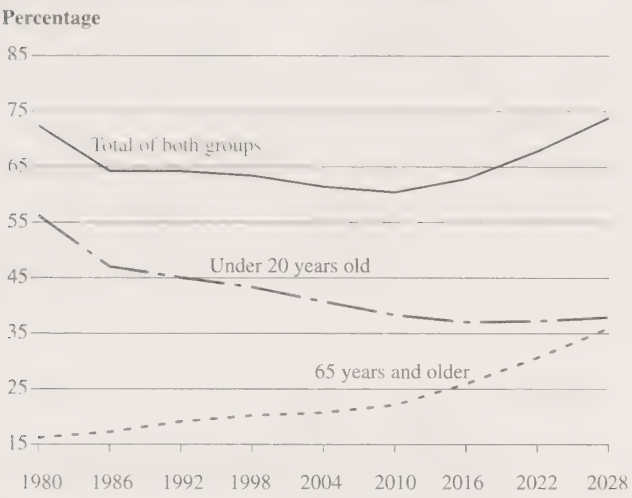
In a report tabled in October 1998, the House of Commons Standing Committee on Public Accounts endorsed the need for long-term fiscal information. In its response to the Committee, the Department of Finance argued that long-term projections would undermine "the importance and urgency of addressing immediate problems." However, the Department did leave the door open for such projections at some later date, once the government has accumulated more annual surpluses and there is less political focus on short-term targets. I think the Department is mistaken. In my view, the argument that long-term fiscal projections would detract from the

importance of immediate problems is not persuasive. Only by considering the longer term can we fully appreciate how urgent our present fiscal situation is.

This is especially true today, given projected demographic trends and their consequences for public finances. The ratio of youth and elderly to the working-age population in Canada is at an historically low level (see Exhibit 1). This favorable ratio will begin reversing in about 10 years, as the large baby boom generation begins reaching normal retirement age. Within three decades, the proportion of elderly in the population will have doubled, putting unprecedented pressures on our health care and social security systems. Decisions we make today will define the choices available to Canadians not just this year and next, but decades ahead. Should we leave that legacy to chance?

Exhibit 1

Ratio of Youth and Elderly to Working Age Population




**Source:** Statistics Canada, Matrix 6367

Canada eliminated its deficit much faster than almost anyone thought likely a few years ago. The near-term outlook remains favourable. This provides us with a window of opportunity to put in place the structures that can withstand the demographic pressures looming ahead. To do that, we need information on how serious those pressures are. And clearly, such information requires an outlook well beyond the government's current two- to five-year budget horizon.

## In a surplus environment, unconditional short-term targets based on pessimistic projections can lead to adverse consequences

The fiscal plan or framework is a key feature of any modern budget. It reflects the government's fiscal response to current economic conditions and its strategic approach to ensuring stability and health in public finances. Until recently, the government's fiscal strategy had focussed exclusively on deficit reduction. With the elimination of the deficit two years ago, the government's announced objective now is to maintain a zero balance or a small surplus in its annual budget.

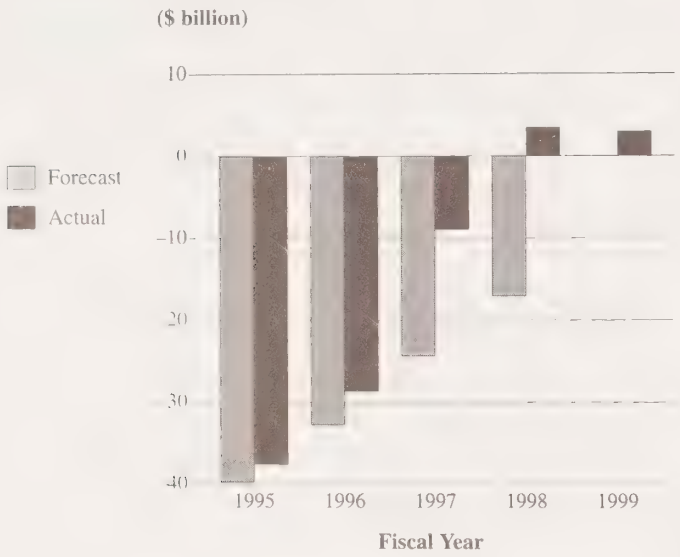
Under the current planning process, specific targets for the budget balance are set for each of the two fiscal years following the budget. The government commits itself unconditionally to meeting these targets: in the vivid language of the Minister of Finance, they are targets to be met "come hell or high water." To ensure that they are, the targets are based on "prudent" economic assumptions.

meaning assumptions that interest rates will be higher and economic growth correspondingly lower than the consensus forecast by the private sector. They also include a $3 billion "contingency reserve" as an additional cushion against unforeseen developments.

As Exhibit 2 shows, over the past five years, the government has in fact bettered every target it has set. In the early years of this "prudent" approach to budget planning, when the budget was still in deficit, bettering the target meant, in effect, moving toward a balanced budget faster than forecast. This proved useful in earning the government a reputation for fiscal discipline and assuring markets that Canada's finances were at last under control. But now that the budget is in surplus, this approach to budget planning has less benign consequences.

**Exhibit 2**

**Budget Balance: Forecast vs. Actual**




For one, it biases government decisions toward higher spending. With budget projections based on pessimistic assumptions, it is likely that the actual budget surplus will exceed the projection. By the time this becomes evident near the year-end, it is normally too late to affect the result through tax reductions, leaving increased spending as the most effective means of eliminating the "excessive" surplus. Each of the past two budgets contained significant new spending booked in the year the budget was tabled. As a result, recorded spending in each of those two years was substantially higher than had been planned. In February 1997, program spending for fiscal year 1997–98 was budgeted at $105.8 billion, but actual spending recorded for that year was $108.8 billion. In February 1998, program spending for fiscal year 1998–99 was budgeted at $104.5 billion. Actual spending was $111.4 billion, nearly 7 percent higher.

At issue here is more than the mere fact that the government spent more than it had planned to spend. How this was done also matters. A scramble around budget time to find ways to spend money before the year ends is not a process calculated to ensure efficiency, effectiveness and economy in the use of public funds. In fact, it differs little from end-of-year spending by departments with surplus funds, except that it involves not millions but billions of taxpayer dollars.

The current approach to budget planning also leads to pro-cyclical bias, adding stimulus when the economy is strong and removing stimulus when the economy is weak. Budget surpluses will tend to be larger than projected when economic growth is higher than expected, and smaller when growth is relatively low. A policy of sticking to a specific surplus target, regardless of events, will therefore normally require increased spending when the economy does better than expected and reduced spending when the economy does worse. In short, it will tend to stimulate an already strong economy and dampen a weak one, exacerbating normal swings in the business cycle.

The current approach to fiscal planning was adopted at a time of huge deficits and widespread skepticism about the government's ability to rein them in — the legacy of a series of overoptimistic forecasts. In those circumstances, setting unconditional short-term targets proved a winning strategy. With the conditions giving rise to that strategy now behind us, the strategy itself needs to be rethought.

### A multi-year fiscal framework can promote fiscal discipline and sound spending decisions

The government's success in eliminating the deficit was aided by two initiatives it launched early in its mandate. The first was Program Review, involving a comprehensive examination of existing programs to determine whether they were still necessary and, if so, whether they could be better run. The second initiative was a new Expenditure Management System, which capped government spending by requiring that all new projects be financed with funds reallocated from existing programs. Program Review was completed by 1995 and the cap on spending was lifted implicitly in 1998, with the elimination of the deficit. The need for ongoing review of government activities remains, however, for we still need to ensure that they continue to serve a useful public purpose and that they remain efficient, effective and affordable.

The need for ongoing review of government activities remains.

A multi-year fiscal framework can provide the incentive for this ongoing review. As part of such a framework, the government would establish aggregate spending limits consistent with the fiscal future it wants to bring about. Limits on total spending can help promote good management and fiscal discipline in the public sector. They play the role that household budgets do in family spending decisions: forcing decision makers to recognize the costs of their decisions and the need to choose carefully among their spending options.

There is no limit to the demands that can be made of government or to the services government can choose to provide. In the absence of a budget constraint, the temptation to do too much is natural. When spending on new programs can be accommodated without depriving existing ones of resources, why bother with the difficult — and costly — exercise of carefully analyzing new proposals, or risk alienating political support by opposing them? Government ministers and managers have limited incentive to curb their own spending, or to oppose that of others, when it does not interfere with their own favourite programs. Establishing explicit limits on total spending changes this dynamic, by bringing home to decision makers the fact that every program has to compete for resources with all others. It encourages a more careful review of new initiatives and comparison of their merits with those of other initiatives that would have to be sacrificed to put them into place.

**Even in good times — especially in good times — it is important that we set affordable limits on spending and live within them.**

Canada's finances improved significantly over the past few years. Our challenge now is to maintain the fiscal discipline that made those improvements possible. Even in good times — especially in good times — it is important that we set affordable limits on spending and live within them. As we learned in the early 1990s, if we do not establish limits ourselves, the financial markets will do it for us. The whole point of a good budgetary process is to prevent us from ever falling back into that condition.

*For related OAG work, see: 1998 Chapter 6 Population Aging and Information for Parliament: Understanding the Choices; 1995 Chapter 9 Information for Parliament – Deficits and Debt: Understanding the Choices; 1993 Chapter 5 Information for Parliament – Understanding Deficits and Debt.*

## Without better information on the results of government programs, Canadians cannot know what they get for the taxes they pay

In my first report as Auditor General eight years ago, I stressed the need for managers and departments to account for results: "for what they have — or have not — achieved with taxpayers' money." Information on results is necessary first and foremost because it goes to the heart of why organizations exist, which of course is to achieve desirable results, not to just use up

resources. But it is necessary for practical reasons as well — more specifically, to:

- manage programs and services more efficiently and effectively. We cannot improve what we do unless we know the results of what we are doing;
- support better allocation of public resources. Intelligent decisions on the funding of programs require information on what those programs are achieving or are not achieving; and
- improve accountability in the use of public funds. As delegation of authority to use public resources proceeds, clearer reporting on objectives and on results achieved becomes all the more necessary to preserving democratic control and accountability for use of the taxpayers' money.

The federal government has introduced several important initiatives in this area over the past few years, as Exhibit 3 shows. These initiatives have certainly made a difference. Information to Parliament is now more complete and accessible; descriptions of departmental missions, structures and activities are better; and progress has been made in setting expectations and reporting performance.

Exhibit 3

**Milestones in Performance Reporting at the Federal Level**

**February 1995.** The government announced a new Expenditure Management System, stressing commitment to "performance information and management."

**November 1995.** In his annual report, entitled *Strengthening Government Review*, the Treasury Board President reaffirmed the government's commitment to results-oriented management and set out its strategy to bring it about.

**April 1997.** The House of Commons approved a motion to split the annual *Estimates Part III* into two documents, a *Report on Plans and Priorities*, tabled in the spring, and a *Performance Report*, tabled in the fall. The intention is for the reports on plans and priorities to establish performance expectations and for the performance reports to disclose how well previous expectations were achieved. The first complete set of Performance Reports was tabled in November 1997 and the first full set of Reports on Plans and Priorities in March 1998.

Yet, as the government acknowledges, much remains to be done. Objectives in departmental plans are frequently vague. The specific results expected are often neither clearly stated nor measurable, and they tend to focus on outputs (what is produced), not outcomes (what happens as a result). Reporting is still oriented mainly toward activities and products.

It was recognized from the beginning that managing for and reporting on results would be difficult to implement. Establishing meaningful performance expectations, reliably measuring accomplishments and reporting on them fairly are not easy tasks. Causal links between program outputs and societal outcomes are rarely unambiguous or precise. Our expectations about what is possible must therefore be realistic.

That said, however, I'm convinced that focussing on results is the right approach. Other jurisdictions that have travelled this road ahead of us —

Australia, New Zealand, the United Kingdom, the United States, the Nordic countries — acknowledge the difficulties, but none that I know of is thinking of turning back. Independent standard-setting bodies in Canada agree. CCAF–FCVI Inc., the Canadian Institute of Chartered Accountants, the Canadian Council of Legislative Auditors — each one of these organizations has recently sponsored major research and development programs aimed at promoting performance reporting in the public sector. These initiatives reflect a growing consensus among practitioners on the importance of results-based reporting for effective performance and accountability in the public sector.

Nevertheless, progress in this area will likely remain slow until appropriate incentives to report on results and performance are put in place. An important first step would be for the government to find a way to make better use of performance information in its decisions on planning and allocating resources among programs. Parliamentarians can also help by reviewing Departmental Performance Reports more closely and using them more extensively in scrutinizing government activities. And departmental managers must be encouraged to integrate performance measures more fully in their own planning decisions. For all of this to happen, strong support from senior managers is needed to change the culture to one focussing on outcomes rather than only inputs and outputs. Without this support, progress will be very slow. With it, public management can be modernized.

**Progress in this area will likely remain slow until appropriate incentives to report on results and performance are put in place.**

*For related OAG work, see: 1998 Report on Parliamentary Committee Review of the Revised Estimates Documents; 1997 Chapter 5 Reporting Performance in the Expenditure Management System; 1997 Chapter 11 Moving toward Managing for Results; 1997 Chapter 22 Crown Corporations: Making Performance Measurement Work; 1995 Chapter 10 Crown Corporations: Fulfilling Responsibilities for Governance; 1993 Chapter 4 Crown Corporations: Accountability for Performance.*

## Better cost information is needed for improved performance

Good performance reporting and managing for results are also hampered at present by poor information on the cost of government activities. Accurate and timely financial information is essential to an effective performance-based system. To assess performance, results must be linked to costs. It is not enough to know merely what is produced; we also need to

know the cost of that production. The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost.

**The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost.**

The government's Financial Information Strategy (FIS) currently being implemented is designed to fill this gap. Among other things, FIS will replace the somewhat archaic, partly cash-based present system of accounts with full accrual accounting similar to that used by business firms. This means that capital asset costs will be recognized over time as the assets are used up, instead of all "up front" in the year acquired. By appropriately associating costs with the operations they support, accrual-based accounting will provide us with better information on what government programs actually cost.

First launched in 1989, FIS was re-endorsed as a government priority in 1995. The target date for implementation across government is April 2001. FIS will bring the management of government into alignment with modern private sector practices in other jurisdictions, such as Alberta, Australia, New Zealand and the United Kingdom.

The pace of implementation will have to accelerate if that target date is to be met. As I report in Chapter 21, FIS remains far from completion. At the time of our audit, most government departments were ill-equipped to implement FIS, and central management and support by the Treasury Board Secretariat needed considerable strengthening. In my view, the momentum created across government to deal with Y2K must now be carried forward to FIS. In particular, new financial systems and accounting rules must be put in place within two years if the present deadline is to be met, and officials throughout government must be encouraged to use the more businesslike and timely financial information that FIS will provide for day-to-day management and accountability.

The government cannot afford to let this project lag, especially in light of previous delays. Not only meaningful performance reporting but program evaluation, inventory and asset management, decisions about how to fund and run programs, how much to charge for user services where user-pay policies are in place — all of these activities require information that the government does not now have and that FIS, properly implemented, can provide.

*For related OAG work, see: 1999 Chapter 21 Financial Information Strategy: Departmental Readiness; 1998 Chapter 18 The Financial*

*Information Strategy: A Key Ingredient in Getting Government Right; 1997*
*Chapter 2 Financial Management: Developing a Capability Model; 1997*
*Chapter 3 Management of the Government's Accounting Function: A Central Agency Perspective.*

## New governance arrangements require new accountability mechanisms

In Chapter 23 of this Report, I discuss the results of a government-wide audit of accountability in new types of governance arrangements that involve organizations outside the federal government in the delivery of federal objectives. The Labour Market Development Agreements with the provinces, the Canada Foundation for Innovation, the National Child Benefit, the Canada Millennium Scholarship Foundation and the St. Lawrence Seaway Management Corporation are examples. There has been a significant growth in the use of such arrangements and they hold promise of more effective and efficient delivery of federal programs and services.

**Without appropriate accountability and good governance mechanisms, these arrangements can erode the ability of Parliament to scrutinize the use of federal power.**

I am concerned, however, that the government has not given proper attention to the implications for accountability and good governance. By their very nature, these arrangements challenge the traditional accountability relationship that sees ministers answerable to Parliament for their policies and programs and, through Parliament, to citizens at large. Since other parties are also involved in these arrangements, ministers are never wholly responsible for them. In some cases, arrangements have intentionally been set up to be totally independent from ministers, even though they may depend on federal funds and federal authority. Without appropriate accountability and good governance mechanisms, these arrangements can erode the ability of Parliament to scrutinize the use of federal power and the right of citizens to accountable government.

Our government-wide audit found significant weaknesses in existing accountability mechanisms. Arrangements have been established without adequate provision for Parliament to scrutinize the way they operate or to hold the government to account for their performance. And they do not always provide means for public input, citizen redress, or recourse when the public's expectations are not met. Indeed, there are few mechanisms in place that would allow the government itself to monitor these arrangements effectively. As things now stand, the government does not know to what

extent it is using these arrangements or whether, as instruments of federal policy, they are performing well or failing.

Fiscal and technological forces are pushing governments to use innovative, non-traditional ways of delivering programs and services. Reliance on new governance arrangements is therefore likely to grow in the future. As we move to these new forms of delivery, however, we should be careful not to jettison fundamental principles of parliamentary democracy along the way. Whenever the government enters into new arrangements for program delivery, it must ensure that they address several key elements: credible reporting, effective accountability mechanisms, adequate transparency and protection of the public interest. Parliament itself needs to consider carefully what governing framework it expects in such new arrangements. While increased reliance on new forms of public service delivery may be inevitable, it need not be at the expense of accountability to Parliament and the public.

*For related OAG work, see: 1999 Chapter 5 Collaborative Arrangements: Issues for the Federal Government; 1999 Chapter 6 Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities; 1999 Chapter 23 Involving Others in Governing: Accountability at Risk; 1999 Chapter 24 The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing; 1998 Discussion Paper Assessing Alternative Service Delivery Arrangements (June); 1998 Chapter 12 Creation of the Canadian Food Inspection Agency; 1997 Chapter 5 Reporting Performance in the Expenditure Management System; 1997 Chapter 19 Transport Canada – The Commercialization of the Air Navigation System.*

## Revitalization of the public service is critical to the success of all other public sector reforms

A highly competent and well-motivated government work force is key to successful public sector reform. In the end, it is people who must implement the reforms, deliver the services and provide feedback for improved performance. Modernizing the public service is therefore vital to modernizing government. Bringing this about may be the government's biggest challenge.

**Modernizing the public service is vital to modernizing government.**

The public service today is a knowledge-based institution: a majority of its members are in the professional or management categories. In the future this will likely be even more pronounced. Human resource systems and practices designed for an

earlier era will not sustain the public service of the future. "Knowledge workers" tend to be self-directed. They perform better in an environment of incentives than of rules. They demand greater involvement in decision making. They value flexible working arrangements and opportunities for continuous learning. Smart companies are already operating this way. Canada's public service will have to learn to compete with them, if it is to attract and retain the right workers for the future.

At the same time, the public service is an institution under considerable pressure. Work force reductions and years of restraint and restructuring have had an unsettling impact. Skills and competencies to run programs are lacking in many areas. According to recent surveys, increased workloads and poor career paths are major concerns among federal public service employees, while young Canadians no longer view the public service as an attractive career option. The government will have to cope with these immediate concerns while establishing a plan to deal with the longer-term needs of the public service.

**Failure to reform the public service would put all other public sector reforms at risk.**

One issue that is both immediate and longer-term is work force renewal. The public service work force is older than the Canadian work force as a whole. A large proportion of public service employees will likely retire during the next decade. Over one half of senior managers will be eligible for retirement within the next five years. The public service will have to replace these employees at a time of generally slow labour force growth and increasing demands for skilled workers in other sectors of the economy. And it will have to do so while safeguarding core public sector values like integrity, non-partisanship, diversity and respect for due process.

The government is aware of these problems and the challenges they pose. It has paid more attention lately to human resource issues and progress has been made in some areas, as I reported last April in a chapter on the management of science and technology personnel. New recruiting and development programs, resumption of collective bargaining, la Relève and a universal job classification system are among the prominent recent government efforts aimed at adapting human resource management practices to the current and anticipated needs of the public service work force. A host of other, less visible projects with a similar purpose are under way across the public service and within individual departments and agencies. But the job is huge, and progress appears frustratingly slow.

It is likely to remain so until the government succeeds in establishing a vision of the public service that can give all these efforts coherence and

direction. What is the proper balance between central direction and departmental autonomy over personnel management? How do we maintain a unified public service while devolving responsibility to departments and agencies? Which government functions should remain in the core public service and which could be allowed to migrate elsewhere? Without clear answers to such questions, progress in reforming the public service will likely stall. And failure to reform the public service would put all other public sector reforms at risk.

*For related OAG work, see: 1999 Chapter 9 Management of Science and Technology Personnel: Follow-up; 1998 Chapter 1 Expenditure and Work Force Reductions in the Public Service; 1998 Chapter 2 Expenditure and Work Force Reductions in Selected Departments; 1997 Chapter 1 Maintaining a Competent and Efficient Public Service.*

## Conclusion

The 1990s have been a decade of transition in government, both in Canada and elsewhere. The revolution in information technologies that is forcing companies across the spectrum to "reinvent" themselves is having a similar impact on governments. Like corporations in the private sector, governments are becoming smaller, mission-oriented organizations providing goods and services through varying arrangements with other parties. The principle that best describes this emerging public sector model is captured by the maxim that "governments should steer, not row."

Common elements of this emerging model include greater reliance on means outside of departments to deliver services, a shift in focus from inputs and outputs to outcomes, management based on results rather than rules, and a lessening of centralized controls in favour of increased managerial autonomy and employee empowerment. It also encompasses a more participatory form of governance, entailing more transparency in government operations and more consultations with the public in formulating policies and making decisions.

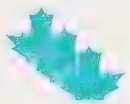
**The federal government has made important strides during the decade now ending. But much more still needs to be done before the results merit three cheers rather than two.**

In most of these areas, the federal government has made important strides during the decade now ending. But much more still needs to be done before the results merit three cheers rather than two. An open and forward-looking budgetary process, good information on the results of government activities and integration of that information in management decisions, a clear perspective on the role and make-up of the future public service along with the actions necessary to see this brought about — it will

take improvements in all of these areas. In most cases, all that is needed is further progress on processes now in place. It is therefore certainly within our reach — and we should make it our goal — to earn that third cheer before the next decade is out.

At the threshold of a new century, Canada stands tall and full of promise. As our membership in the G–7 shows, Canada ranks among the economically most important countries in the world today. And our first-place ranking in the UN Human Development Index for six years in a row indicates that our achievements extend beyond the economic sphere alone.

National success is not foreordained, however. As we know from the experience of other countries, it is possible for societies to regress as well as to move forward. Which course they find themselves on depends critically on the performance of the public sector: its capacity to generate informed policies, provide the necessary infrastructure, minimize the burdens it places on private firms and individual taxpayers. To ensure that we move forward, we need government institutions that are responsive, effective and efficient. Building on the foundations of the past decade, we can succeed in passing on to posterity a stronger Canada, as our forebears did for us.



# Chapter Supplement: Other Recent and Ongoing Audit Issues

## Managing for sustainable development: Progress has been made but gaps remain

It has been four years since the *Auditor General Act* was amended to help strengthen the federal government's performance in protecting the environment and promoting sustainable development. Those amendments required government departments to prepare sustainable development strategies, and created the position of Commissioner of the Environment and Sustainable Development within my Office to monitor and report annually to the House of Commons on departmental performance.

Since then, the Commissioner of the Environment and Sustainable Development has reported three times to the House of Commons on a total of 17 audits and studies of issues with an important environmental or sustainable development component. What have we learned?

Many environmental and sustainable development issues are, by their very nature, difficult to manage. They are often scientifically complex, involve long time frames and do not fit neatly within a single department's or government's mandate or jurisdiction.

Notwithstanding those difficulties, when policies and programs are developed and announced, the public does expect that they will be implemented and that intended results will be achieved. But as the Commissioner stated in his May1999 Report, the federal government's management of environmental and sustainable development issues is a mix of successes, failures and works in progress.

Both the Commissioner and I are convinced that performance can be significantly improved by applying sound management practices to the sustainable development agenda. Departments and agencies have taken the first steps: we have seen examples of good environmental management, and a growing interest among public servants in understanding and sharing good practices.

But we still have a way to go before those good practices become the norm and are applied routinely to the management of environmental and sustainable development issues.

*For related OAG work, see: 1999 Report of the Commissioner of the Environment and Sustainable Development.*

## Managing Atlantic shellfish in a sustainable manner: Have we learned from past mistakes?

Last April, I reported the results of an audit of the way the Department of Fisheries and Oceans manages the Atlantic shellfish fisheries. The findings of that audit lead me to question whether government has learned the lessons of past failures in fisheries management.

Many of the management problems found in previous audits (reported in Chapters 14 and 15 of my 1997 Report) continue to exist. Of greatest concern is that the Department has still not developed an overall management framework for the Atlantic fisheries. As a result, fundamental questions about fisheries management remain unanswered. What are the overall objectives for managing the fishery? How are competing biological, social and economic factors to be balanced in decisions made by fisheries managers? How can decisions be made in an open and transparent manner, consistent with a set of guiding principles for the fishery? In the face of inevitably limited information about the resource, how is an appropriate element of caution introduced in regulatory policies about the fishing industry? These are only a few of the key issues that the Department must address.

I believe that the Department must move quickly to develop an overall framework for managing Atlantic fisheries in a sustainable manner. The Standing Committee on Public Accounts also made such a recommendation in a report to the House of Commons last June. This framework should be the foundation on which future decisions are based. Without this foundation, the long-term sustainability of the resource remains at risk.

*For related OAG work, see: 1999 Chapter 4 Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner; 1999 Chapter 20 Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries; 1997 Chapter 14 Fisheries and Oceans Canada – Sustainable Fisheries Framework: Atlantic Groundfish; 1997 Chapter 15 Fisheries and Oceans Canada – Rationalization to Renewal: Atlantic Groundfish.*

## User fees: More than just government revenues

The idea of government user fees is not new; some federal government departments have been charging since the turn of the century for services they provide. But only in this decade has the idea received serious widespread attention, particularly following the 1995 Program Review when departments revamped programs to deal with the deficit and to improve their services to Canadians. Existing user fees were increased and new ones introduced.

Critics of this initiative have been many and vocal. User groups, and respected commentators, have criticized the way user charges have been implemented and questioned the merits of the policy. One of the main architects of the Program Review exercise argues that managers relied too heavily on user charges to meet Program Review objectives. An influential industry group has called for a fee moratorium across government.

Our audit work, both in past years and this year, provides ample reason for concern about how user charges have been implemented. Weaknesses in determining costs of individual services have left users with an unsettling feeling about the cost figures used to set fees. Often, managers can't make a convincing case that users are not being charged for inefficient operations. Despite the fact that user charges are a contentious issue that has sparked a great deal of debate, departments and the Treasury Board Secretariat have generally reported little information to Parliament and the public on plans for user charges or on results.

What is to be done, then? The Treasury Board Secretariat has promised to review experience with the policy this year. With many voices arguing that user charges should be frozen or abandoned, it is important to consider the arguments for fixing the initiative. Our work provides evidence that user charges can generate additional benefits, beyond revenues, to both the government and users of services. This can serve as an incentive for users to work with managers and focus services on what they truly value. The pressure that user charges create to improve service standards, costing systems and efficiency of operations should be welcomed by users and government officials alike.

User charges are not applicable everywhere, nor should they be seen as a panacea, but they can play a valuable role in the management of government services.

*For related OAG work see: 1999 Chapter 11 Agriculture Portfolio: User Charges*

## Grants and contributions programs: Management shortcomings persist

Grants and contributions are transfer payments from the government to individuals and organizations of various types. Grants are unconditional transfers; that is, they impose no requirements on recipients beyond the initial entitlement conditions. Contributions, however, are transfer payments that are subject to performance conditions specified in the contribution agreements.

Over the past two decades, my Office has carried out several audits of the management of grant and contribution programs by federal departments and agencies. These audits identified persistent shortcomings, ranging from problems in compliance with program authorities to weaknesses in program design, and to poor controls and inadequate reporting on performance.

I can't help but express a certain degree of frustration with the management of grant and contribution programs. I believe that my Office has made a difference in the programs that we have audited. What concerns me is that when we look at programs we have not audited before, we find similar problems. I know that parliamentarians share my concern. For instance, in its 24th report to the House of Commons tabled in March 1999, the Standing Committee on Public Accounts recommended that my Office consider undertaking an audit of the management of grant and contribution programs government-wide and report our conclusions to Parliament.

In my response to that recommendation last June, I informed the Committee that we were planning such an audit for reporting in the fall of 2001. Our intent is to look at a number of different departments and agencies with relatively large grant and contribution programs, so that we can make summary observations on the quality of the management of such programs across government.

In the meantime, we continue to carry out audits of specific grant and contribution programs and report on each to the House of Commons. This year, we examined payments made under The Atlantic Groundfish Strategy, Phase II of the Canada Infrastructure Works Program, and four grant and contribution programs in the Industry Portfolio.

*For related OAG work, see: 1999 Chapter 7 The Atlantic Groundfish Strategy: Contributions and Grants; 1999 Chapter 17 Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit; 1999 Chapter 19 Industry Portfolio – Investing in Innovation; 1998 Chapter 27 Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage.*

## National Health Surveillance: Lack of collaboration impairs effectiveness

Health surveillance is a core function of public health. In Chapter 14 of this Report, we examine the way Health Canada carries out national health surveillance and control activities, and how those activities support the other components of the public health framework.

The chapter identifies weaknesses in national surveillance of diseases and injuries that, taken together, have clear national implications for public health. First, they compromise Health Canada's ability to detect, prevent and control health risks associated with outbreaks of communicable diseases and other health threats. Second, they compromise its ability to plan and carry out programs that deal with the causes and treatment of diseases.

In a separate but related chapter, we present a case that illustrates many of the issues raised in Chapter 14. We looked specifically at how federal and provincial agencies — Health Canada's Food Directorate with its Laboratory Centre for Disease Control (LCDC), the Canadian Food Inspection Agency (CFIA), and provincial and local public health departments — responded to an outbreak of a food-borne disease that occurred in March and April 1998.

We found that some important elements of the response to the outbreak worked well, but others did not; for instance, there was insufficient co-operation among the agencies involved. The CFIA did not share certain information when requested by provincial public health officials to assist in the investigation.

A formal framework is needed that sets out clearly the roles and responsibilities of the LCDC in relation to those of other participants, in order to guide the response to threats to public health. Many individuals could have avoided this illness had the federal and provincial health departments acted more quickly.

*For related OAG work, see: 1999 Chapter 14 National Health Surveillance – Diseases and Injuries; 1999 Chapter 15 Management of a Food-Borne Disease Outbreak; 1999 Chapter 29 Federal Support of Health Care Delivery.*

## Millennium bug: no room for complacency

Year 2000, the two-digit year code problem (also known as Y2K and the millennium bug) has been a cause of concern to industry and governments around the world. The estimated costs of addressing this problem run as high as US $800 billion worldwide. In August 1999, the federal government estimated the costs of its Year 2000 projects at $2.2 billion. According to the Treasury Board Secretariat, the final costs could reach $2.5 billion. However, given the extensive reliance on computerized processes by both industry and government, the implications of not addressing the problem adequately could be immense.

We audited the government's preparedness for the millennium bug in each of the past three years. Our 1997 Report noted our concern about the slow pace of Year 2000 work. In 1998, we remained very concerned that some essential services could be interrupted in 2000. In 1999, as we completed our work in individual departments and agencies, we reported our findings to management and suggested actions to consider. That additional step was taken to provide more time for those organizations to act.

The government has made significant progress in preparing its systems that support government-wide mission-critical functions for the Year 2000. In July 1999, work on those systems was 99 percent complete. The remaining work was scheduled to be completed by October 1999.

Departments have also been preparing for potential system failures that may be caused by Year 2000. However, though contingency procedures have been defined, we found that contingency planning needs more work. In the plans we reviewed, some key components were incomplete or lacking specific details.

As we completed our audit in September 1999, much had been accomplished to prepare for the Year 2000 but work still remained to be done. We concluded that the government needs to remain vigilant to minimize potential disruptions in January 2000 and beyond.

*For related OAG work, see: 1999 Chapter 25 Preparedness for Year 2000: Final Preparation; 1998 Chapter 20 Preparedness for Year 2000: Government-Wide Mission-Critical Systems; 1997 Chapter 12 Information Technology: Preparedness for Year 2000.*

## Opportunities for cost savings

Improving the efficiency and effectiveness of government activities and cultivating a healthy regard for economy are objectives central to our mandate and to the work that we do at the OAG. The impact of our work is not easily quantifiable in most cases, but often in the course of our audits we find opportunities for cost savings to which a price tag can be attached. Following are two recent examples:

**Materiel management.** Government holdings of materiel (assets other than money and real property) exceed $50 billion. Our 1996 audit of how these holdings are managed identified significant shortcomings, resulting in poor value for money and excess inventories. Our report recommended action to improve information on materiel holdings and rectify deficiencies in materiel management systems. In a follow-up to our audit, reported last December, we found that departments had made significant progress in materiel management. Since 1996, inventory holdings had been reduced by more than $480 million. This may reduce annual carrying costs by as much as $100 million.

**Fiscal equalization payments.** Our 1997 audit of the Equalization Program questioned the inclusion of user fees among the set of taxes forming the base of the equalization formula. The basic purpose of equalization transfers is to reduce disparities among provinces in their fiscal capacities to provide public services. The audit pointed out that to the extent that government-provided services are financed directly through user fees, the users of those services also generate the capacity to provide them: there is no need for transfers to support provincial capacities in such cases. Looking at this question another way, fees used to finance "user pays" activities are not available to finance general government services. There is no revenue source, as such, to equalize. In reforms to the equalization formula introduced earlier this year following consultations with the provinces, the government amended the equalization formula to exclude half of the user fees from the tax base. This change will be phased in over five years. When fully implemented, it will save the government approximately $350 million annually.

*For related OAG work, see: 1999 Chapter 32 Follow-up of Recommendations in Previous Reports: Department of Finance — Equalization Program; 1998 Chapter 28 Follow-up of Recommendations in Previous Reports: Materiel Management in the Federal Government; 1997 Chapter 8 Department of Finance — Equalization Program; 1996 Chapter 23 Materiel Management in the Federal Government.*

# Main Points

# Table of Contents


Page

**Main Points – April 1999**

**Chapter**

1 Correctional Service Canada – Reintegration of Offenders 5

2 Revenue Canada – Underground Economy Initiative 7

3 Statistics Canada – Managing the Quality of Statistics 8

4 Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner 9

5 Collaborative Arrangements: Issues for the Federal Government 11

6 Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities 12

7 The Atlantic Groundfish Strategy: Contributions and Grants 14

8 The Atlantic Groundfish Strategy: Follow-up 15

9 Management of Science and Technology Personnel: Follow-up 16

10 Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up 18

**Main Points – September 1999**

**Chapter**

11 Agriculture Portfolio – User Charges 19

12 Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research 21

13 National Defence – Hazardous Materials: Managing Risks to Employees and the Environment 23

14 National Health Surveillance: Diseases and Injuries 25

15 Management of a Food-Borne Disease Outbreak 26

16 Revenue Canada – Goods and Services Tax: Returns Processing and Audit 28

17 Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit 30

18 Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services 32

19 Industry Portfolio – Investing in Innovation 34

Page

Main Points – November 1999

Chapter

| | | |
|---|---|---|
| 20 | Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries | 36 |
| 21 | Financial Information Strategy: Departmental Readiness | 38 |
| 22 | Attributes of Well-Managed Research Organizations | 40 |
| 23 | Involving Others in Governing: Accountability at Risk | 41 |
| 24 | The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing | 43 |
| 25 | Preparedness for Year 2000: Final Preparation | 44 |
| 26 | National Defence – The Proper Conduct of Public Business | 45 |
| 27 | National Defence – Alternative Service Delivery | 47 |
| 28 | Canadian International Development Agency – Financial Controls Over Projects | 49 |
| 29 | Federal Support of Health Care Delivery | 50 |
| 30 | Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices | 52 |
| 31 | Department of Foreign Affairs and International Trade – Delivery of Capital Projects in Four Missions | 54 |
| 32 | Follow-up of Recommendations in Previous Reports | 55 |
| 33 | Other Audit Observations | 56 |

# Correctional Service Canada

## Reintegration of Offenders

## Chapter 1 – Main Points

**1.1** Correctional Service Canada has made a concerted effort to respond to our 1994 and 1996 observations concerning the management of its offender reintegration activities. However, there are some important areas that require further improvement.

**1.2** The Service is now moving in the right direction. It has recently implemented change initiatives in several areas. Among them, it has strengthened the ability of national headquarters to direct and co-ordinate offender reintegration activities Service-wide; implemented a major initiative to streamline its reintegration operations; achieved international recognition for some of its offender rehabilitation programs; and improved its ability to measure the results and performance of its reintegration activities.

**1.3** Progress notwithstanding, improvement is still needed in some key areas:

- more timely acquisition of official documents for initial offender assessment;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

**Background and other observations**

**1.4** Correctional Service has as one of its main responsibilities the safe reintegration of offenders into the community. This entails assessing offender risk and needs; preparing the offender for release into the community; reassessing offender suitability for release and making a recommendation to the National Parole Board; and providing supervision and programs for offenders in the community until the end of the sentence.

**1.5** Overall spending on reintegration has risen by $38 million (13 percent) over the past three fiscal years. Correctional Service Canada spends about $329 million or 28 percent of its total expenditures for the reintegration of offenders.

**1.6** In 1997–98, there were 13,449 incarcerated offenders in federal institutions and 8,744 offenders in the community, most of whom were supervised by Correctional Service parole officers. Until recently, the proportions of federal offenders in institutions and under community supervision have remained fairly constant. However, in 1997–98, the number of offenders supervised in the community increased by about 500.

**1.7** Under the *Corrections and Conditional Release Act*, there are several different ways that an offender can be released into the community: day parole (six months prior to full parole); full parole (at one third of the sentence) and statutory release (after two thirds of the sentence). Some offenders will be detained until the end of their sentence.

**1.8** A recent change allows offenders serving their first federal sentence who have not been convicted of a violent crime or serious drug offence to be released on day parole at one sixth of their sentence (accelerated parole review).

**1.9** Our previous audit work, in 1994 and 1996, identified systemic weaknesses in the Service's management of reintegration activities. Those audits identified concerns in such areas as work standards, quality assurance procedures, performance information, implementing basic changes and learning from successes and failures. This chapter revisits those issues.

**1.10** As promised to the Public Accounts Committee in April 1998, we reviewed changes made by the Service to the custody rating scale and looked at whether the Service had implemented the new offender security reclassification instrument. We found that the changes to the custody rating scale reduced overrides with minimal impact on the number of escapes. The Service has just implemented a new reclassification instrument, as promised.

**1.11** In addition to their institutional security responsibilities, senior correctional officers still do not consistently perform their required offender reintegration duties, a necessary input to offender assessment reports to the National Parole Board. The Service has undertaken an initiative to address this issue.

**1.12** While the Service has developed a continuum of rehabilitation programs from the institution to the community, its ability to deliver these programs to offenders in the community falls short of current needs. Research indicates that many intervention programs that deal with offenders' criminogenic needs are more effective when delivered in the community.

**Correctional Service's responses to our recommendations are included in this chapter. The Service concurs with the recommendations made and its responses indicate its commitment to take the necessary corrective action.**

# Revenue Canada

## Underground Economy Initiative

## Chapter 2 – Main Points

**2.1** Revenue Canada has reported that the tax impact (taxes resulting from enforcement actions) of its activities to address the underground economy was $2.5 billion over five years; however, this includes the results of both regular ongoing enforcement programs and the Underground Economy Initiative. The actual tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit activities is much less than the $500 million reported.

**2.2** It is difficult to assess the overall success of the Initiative in combatting the underground economy because the Department does not measure and report on the full range of Initiative activities and how they have changed taxpayer behaviour.

**2.3** Revenue Canada needs to assess the role that social marketing might play in making the public aware of the societal costs of unpaid taxes and in soliciting its support to combat the underground economy. Polls indicate that an alarming number of Canadians would be willing to participate in the underground economy. The Department also needs to strengthen the activities that promote voluntary compliance by businesses.

**2.4** The underground economy is a difficult and complex problem to solve and the size of the tax loss is significant. The problem requires continuous attention and sustained efforts from Revenue Canada and all Canadians.

**Background and other observations**

**2.5** The underground economy results in tax evasion and represents an estimated annual loss of federal and provincial tax revenues of $12 billion. Tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. It also causes honest taxpayers to bear the tax load of those who cheat. If left unchecked, underground economy activity could lead to a loss of faith in the fairness of Canada's tax system.

**2.6** In 1993, Revenue Canada announced a new initiative to combat the underground economy by allocating 200 staff to its non-filers and non-registrants program and 1,000 staff to the audit of small businesses, where most of the underground economy activity exists. Thirty-five percent of the Department's audit staff for small and medium-sized businesses are now involved in the Underground Economy Initiative audit activities.

**2.7** The Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy. It included activities to promote voluntary compliance in small businesses such as community visits and consultations with industry associations. As well, it involved other federal departments, provincial and municipal governments and private sector organizations in sharing information to better deal with the underground economy.

**2.8** The Department can improve its targeting of audits for the detection and reassessment of unreported income. As well, legislative opportunities exist to strengthen existing incentives to deter participation in the underground economy.

**Revenue Canada has agreed to take action to address our recommendations.**

# Statistics Canada

## Managing the Quality of Statistics

## Chapter 3 – Main Points

**3.1** Statistics Canada is committed to producing statistics of high quality. It has put in place a wide range of systems and practices to build quality into its statistical programs and to maintain an environment that encourages a concern for quality throughout the organization. However, the quality of the statistics it produces needs to be better documented and reported both within and outside the Agency. The Agency needs to integrate its many quality-related systems and practices better and adopt a more disciplined approach to documentation.

**3.2** The Agency has employed a number of formal quality assessment mechanisms, but individual programs have not applied them consistently. We concluded that the mechanisms currently used do not, either individually or collectively, provide systematic, transparent information on the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality that they actually achieve.

**Background and other observations**

**3.3** Statistics Canada is responsible for collecting, compiling, analyzing and publishing statistical information on the economic, social and general conditions of Canada and Canadians. The statistics that the Agency produces support the development, implementation and evaluation of policies, programs and decision making in all sectors. They help us make informed decisions about such matters as where to live, what careers to pursue and how to vote. The Agency is widely respected among its peers, and has an international reputation for independence, innovation and quality that is second to none.

**3.4** Rapid social, economic and other changes have heightened the demand for reliable, objective statistical information on a wide variety of issues. As the demand for and use of statistics grow, their quality becomes increasingly important. Statistics Canada has identified six characteristics that its systems and practices for managing quality need to address: relevance, accuracy, timeliness, accessibility, interpretability and coherence.

**3.5** The Agency carried out self-assessments of four major surveys for our audit. Each assessment reached a positive conclusion about the overall adequacy of quality management. The work was well planned and executed. We concluded that in three of the four surveys, the self-assessments provide reasonable assurance that quality management systems and practices are adequate. In the remaining case, however, we concluded that the weaknesses identified and the recommendations made are more important than the self-assessment suggests, and deserve the attention of senior management.

**3.6** While its policy on informing users of data quality and methodology is clear and well structured, the Agency's implementation of the policy is inconsistent. Consequently, users are not always appropriately informed of the strengths and limitations of statistics. We also noted that while the quality of statistics figures prominently in its commitments to Parliament for results, the Agency's most recent Performance Report, tabled in October 1998, provides only limited information on the quality of the statistics that it produced.

**Statistics Canada's responses to our recommendations are included in this chapter. The Agency either agrees to take action or notes that initiatives are under way in the case of six of the eight recommendations we make. In the remaining two cases, the Agency agrees with the intent of our recommendations and indicates that it will consider the issues further.**

# Fisheries and Oceans

## Managing Atlantic Shellfish in a Sustainable Manner

## Chapter 4 – Main Points

**4.1** In October 1997, we reported on problems associated with the Department's management of the Atlantic groundfish fisheries. In the current audit, we found that many of these problems also exist in the Department's management of the Atlantic shellfish fisheries. For example, we noted increases in harvesting capacity and the encouragement of increased fisher participation through open access licensing in the shellfish fisheries. In addition, we found weaknesses in the information used in making resource decisions, and gaps in monitoring, control and surveillance. The full impact of these problems is not obvious, as most shellfish fisheries are currently recording high landed values. However, in our view these are significant concerns that must be addressed to ensure that the shellfish fisheries are managed in a sustainable manner.

**4.2** The Department's decisions have a profound impact on those engaged in the fishing industry and the communities that rely on the income generated from the industry. The absence of a fisheries policy that fully reflects sustainability concepts means that decisions are made on an ad hoc and inconsistent basis rather than as part of an overall framework for achieving a sustainable fishery. An open and transparent process in which clearly articulated and consistently applied principles guide decision making would provide all stakeholders with assurance that their interests are considered and that the resource is protected over the long term.

**4.3** We observed resource use decisions that are not consistent with the Department's currently stated objectives for fisheries management. As we reported in October 1997, there is a need to have the government clarify fisheries objectives in legislation. The Department needs to move forward with the development of a sustainable fisheries framework that incorporates the interdependent factors — biological, economic and social — that affect the fishery.

**Background and other observations**

**4.4** In the 1990s, Atlantic Canada saw a virtual collapse of its commercial groundfish fishery (cod, haddock, pollock, halibut and various flatfish). In the same period, however, there was a general rise in the value of shellfish landings (lobster, scallop, snow crab and shrimp). In 1997, the landed value of all shellfish in Atlantic Canada was $920 million, which represented 81 percent of the landed value of all fish landed in the region.

**4.5** The Department has stated in its key parliamentary accountability documents that its objective is conservation, or protecting the productive capacity of the natural resource that supports the fishery. It has also reported that it has an economic objective, but the expected results for this objective are not stated. The Department has indicated that it is not responsible or accountable for social outcomes. We found that most resource use decisions in the shellfish fisheries are heavily influenced by social and economic factors.

**4.6** The Department's "Fishery of the Future" strategy reflects objectives that include ensuring economically viable and self-reliant fisheries, over time. However, these objectives are not fully reflected in the Department's reporting to Parliament. We found resource use decisions in the shellfish fisheries that are inconsistent with the concept of an economically viable industry.

**4.7** Co-management, designed to increase industry's role, responsibility and accountability in fisheries management, is an important aspect of the Department's Fishery of the Future strategy. Participants assuming greater responsibility for their industry is an important element of sustainability. However, very little power sharing has actually occurred. In our opinion, there are weaknesses in the Department's current approach to co-management.

**4.8** The Department has recognized that there are weaknesses in the fisheries management framework in the existing *Fisheries Act*. However, amendments to deal with these weaknesses have not yet been re-introduced in the House of Commons.

**Fisheries and Oceans' responses to our recommendations are included in this chapter. The Department either agrees to take action or notes that initiatives are under way to address three of our four recommendations. The Department has not indicated an intention to take action at this time on our recommendation that addresses co-management.**



# Collaborative Arrangements

## Issues for the Federal Government

## Chapter 5 – Main Points

**5.1** Collaborative arrangements are an alternative way — a potentially more innovative, cost-effective and efficient way — to deliver programs and services that traditionally have been provided by federal government departments and Crown corporations. In collaborative arrangements, the federal government, other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

**5.2** With the growing use of these arrangements, more taxpayer dollars are being spent and the risks need correspondingly more attention. The risks include arrangements set up poorly among the partners, limiting their chances for success; partners not meeting commitments; insufficient attention to protecting the public interest; insufficient transparency; and inadequate accountability.

**5.3** We believe that serving the public interest, effective accountability and greater transparency are basic elements of a framework for these arrangements, and we suggest questions that parliamentarians might wish to raise when assessing them.

**Background and other observations**

**5.4** In the desire for greater efficiency, it is very important that the federal government and its partners not lose sight of the public purpose behind the collaborative arrangement, and of the need to provide transparent, fair and equitable service to the public.

**5.5** Effective accountability is more complex in a collaborative arrangement. The federal government is accountable to Parliament for the use of federal funds and authorities, to its partners for keeping its commitments, and, with its partners, to the public for the results the arrangement produces. In our view, this shared accountability means that more parties are accountable and it in no way lessens the federal government's accountability for its own responsibilities in the arrangement.

**5.6** Delivering programs and services to the public through collaborative arrangements often requires more transparency than traditional delivery by a government department. Because partnerships are involved, it may be more difficult for citizens to know who is responsible. Consequently, the federal government needs to be as open as possible with information about agreements, decisions and results of the arrangements.

**5.7** The Treasury Board Secretariat has informed us that it intends to continue to provide advice and to develop guidance on collaborative arrangements for federal departments and agencies that will address many of the issues identified in this study.

# Human Resources Development Canada — Accountability for Shared Social Programs

## National Child Benefit and Employability Assistance for People with Disabilities

## Chapter 6 – Main Points

### National Child Benefit

**6.1** The National Child Benefit (NCB) represents a new form of collaborative arrangement between provinces (except Quebec) and territories and the federal government. A key challenge for all involved is to assure taxpayers that moneys are spent for the purposes intended, with due regard to economy and efficiency and with appropriate means to measure and report on effectiveness. Because there are many governments involved, it is also necessary to respect the jurisdictional competence of the different parties. As the NCB is implemented it is critical that, at a minimum, there be no less accountability because it is shared than if only one jurisdiction were involved.

**Background and other observations**

**6.2** The goal of the National Child Benefit is to reduce the depth of poverty among families with children and to increase parental attachment to the work force. The NCB involves no new law, contract, or contribution agreement, but rather an increased federal child tax benefit (the NCB supplement) for low-income families — about $850 million in 1998, rising to $1.7 billion by 2000. In turn, jurisdictions providing social assistance benefits to families may reduce their payments by the amount of the increased tax benefit. They have agreed to reinvest these savings in programs that have mutually agreed-upon objectives and that benefit poor families with children.

**6.3** One of the clear achievements of the negotiations leading to the NCB was the partners' agreement on the overall goals of both the federal and the provincial elements of the program. They also have committed to a new kind of joint accountability to the public. What is distinctive about this commitment is that no level of government is more responsible for reporting on the results than another. Each is accountable for the overall program.

**6.4** It will be a significant challenge in the first few years, before evaluation results are available, to demonstrate precisely how the National Child Benefit has contributed to reduced depth of poverty and increased employment among its recipients. In assessing progress, the NCB accountability report will also need to be clear about any trade-offs among goals and to discuss the implications. Otherwise, readers may expect that all goals can be achieved at the same time.

**6.5** There are potential gaps in the quality of financial and other information. The credibility of the accountability reports depends on the comparability, accuracy and verifiability of information from all parties — not only those who negotiated the arrangement (provinces, territories and the federal government) but also those who are responsible for designing and implementing only specific sub-programs (Ontario municipalities and First Nations). This is also a challenge for audit offices that serve the partners in this arrangement.

**6.6** We think the key ingredients in reporting the NCB's results to the public are transparency and adequacy of the information. This means:

- appropriate care is taken to ensure that the information is credible and, at least for financial information, subject to audit;
- data are adequate to determine if the program's overall goals are being achieved; and
- data are sufficiently comparable that outcomes of different provincial approaches can be compared.

It must also be clear whose responsibility it is to do all this, and who will provide assurance that it has been done. Moreover, those charged with the responsibility must have the capacity to undertake the task.

**The Department has said that this chapter will be of considerable assistance in its work to build an accountability regime for the NCB. Some issues are already being addressed. The remaining issues identified in this study will be raised by the federal government in its capacity as co-chair of the federal-provincial-territorial group working on the NCB.**

## Employability Assistance for People with Disabilities

**6.7** Employability Assistance for People with Disabilities (EAPD) is the other program to emerge from federal-provincial discussions in 1997–98 on the social union. The aim of this 50–50 cost-shared arrangement is to help people with disabilities overcome the barriers they face in the labour force. EAPD supports provincial and territorial programs and services ranging from programs that assist in the first steps toward developing skills to those that support a person at work so the person can keep working. Our interest in the program at this early juncture is that steps be taken to ensure that the information each partner will provide on its own expenditures and programs is credible, and permits comparisons of different approaches and assessments of the overall program's effectiveness.

### Background and other observations

**6.8** Each province has signed an agreement with the federal government. Taken together, the agreements illustrate several of the elements of a collaborative arrangement discussed in Chapter 5 of this Report. For instance, the governments agree to follow a co-ordinated, participative planning process and to evaluate program results.

**6.9** Human Resources Development Canada (HRDC) and provincial partners have set about to solve implementation issues in a collaborative fashion. For example, the provinces have committed to annual accountability to HRDC. However, so far there is no specific commitment to the format, substance, or timing of any overall annual report, nor are there specific goals or targets over any time frame. We recommend that HRDC prepare a brief overall annual report for EAPD, comparing activities, expenditures, program outputs and performance of the partners.

**6.10** The partners still have important work to do. When so many jurisdictions are involved, those with oversight and audit responsibilities face the challenge of helping to ensure that the quality of financial and performance reporting is maintained and enhanced.

**The Department has said that the case study will be useful in its work with provinces. It agrees in principle with the recommendation to produce an overall annual report on EAPD expenditures and performance. It pointed out that it will be important to note that EAPD is only one part of overall programming for people with disabilities.**

# The Atlantic Groundfish Strategy

## Contributions and Grants

## Chapter 7 – Main Points

**7.1** We have little assurance that all contributions under The Atlantic Groundfish Strategy (TAGS) were used for their intended purposes. These were part of TAGS active labour adjustment measures managed by Human Resources Development Canada (HRDC).

**7.2** Most of the deficiencies noted in the audit relate to a lack of diligence in assessing project proposals and signing contribution agreements, as well as lack of monitoring by the Department.

**7.3** Many of the files contained no project proposals; in others, proposals were not sufficiently developed to allow proper assessment. Some agreements lacked complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. There was little evidence of on-site monitoring visits to examine expense records.

**Background and other observations**

**7.4** The Atlantic Groundfish Strategy, in effect from 16 May 1994 to 29 August 1998, comprised measures to assist those affected by the groundfish moratorium. About $150 million of the $1.9 billion allocated to TAGS was spent on active labour adjustment measures such as training, mobility assistance, wage subsidies and employment bonuses.

**7.5** Those expenditures were not covered in our audit of The Atlantic Groundfish Strategy, reported in Chapter 16 of our October 1997 Report. Following the publication of that Report, the House of Commons Standing Committee on Fisheries and Oceans requested that we audit the expenditures.

**7.6** Our Office and the Internal Audit Bureau (IAB) of Human Resources Development Canada agreed that IAB would audit the grants and contributions made under TAGS. We closely monitored and reviewed that audit so we could rely on the findings for this chapter.

**7.7** TAGS had increased the caseload of officers by some 40,000 participants over a short period of time. This created pressure to identify, approve and contract for an unprecedented number of projects.

**7.8** Several contributions went to projects that were not clearly related to TAGS. More than half of the agreements were signed after projects had begun. Expenditures were reimbursed without supporting documentation for the claims. For more than half of the projects reviewed, there was no evidence that the files had been closed, although most of those projects had been completed more than two years earlier.

**Overall, Human Resources Development Canada agrees with the findings of the audit and recognizes that a number of important points and concerns are raised in the chapter. Actions undertaken to address the issues include the development of new policies and procedures, training for managers and staff and, in new initiatives, securing resources to ensure sufficient monitoring.**

# The Atlantic Groundfish Strategy

## Follow-up

## Chapter 8 – Main Points

**8.1** We believe the government's efforts to implement the recommendations in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy (TAGS) have been satisfactory.

**8.2** New fishery restructuring and adjustment measures are being implemented. In contrast to our observations of 1997, the eligibility criteria for the new measures are clear, logical and applicable. The accountability framework established for the measures corrects the shortcomings we had identified in TAGS: it clearly defines the responsibilities of the organizations involved, sets out an overall strategic plan and provides for a formal co-ordination mechanism.

**Background and other observations**

**8.3** The objective of TAGS (1994–98) was to restructure the fishery industry in Atlantic Canada to make it economically viable and environmentally sustainable.

**8.4** Close to $1.9 billion was allocated to TAGS. Most of the funding was used to provide income support to the some 40,000 fishers and plant workers affected by the groundfish moratorium.

**8.5** In October 1997, we urged the government to carefully examine the impact of the decisions made under TAGS in order to benefit from the valuable lessons that could be learned.

**8.6** This follow-up examined progress to date in addressing our 1997 recommendations. Some of our observations in this chapter relate to TAGS and others to the Atlantic fishery restructuring and adjustment measures announced in June 1998.

**8.7** Human Resources Development Canada completed an evaluation of the labour adjustment component of TAGS. It also reviewed the duration of eligibility of TAGS participants. The departments involved in implementing the new measures now have considerable information on the profile of the targeted populations, in sharp contrast to the situation that prevailed when TAGS was developed.

**8.8** We believe the orderly way in which the departments are implementing the new fishery restructuring and adjustment measures represents satisfactory progress.

# Management of Science and Technology Personnel

## Follow-up

## Chapter 9 – Main Points

**9.1** We are satisfied with the efforts made by the science and technology community to follow up on our audit recommendations of 1994 and the concerns we raised in our 1996 follow-up report. In our view, the community is showing leadership and perseverance in dealing with the human resource management issues we raised.

**9.2** As a result of all the work done since 1994, the science and technology community is now in a position to act. But the community is faced with considerable challenges. It must give priority to resolving the oncoming changes in its demographic profile that could weaken or compromise the government's science and technology capacity. It must tackle the dual challenges of attracting and recruiting promising young scientists and technologists while retaining high-calibre employees to mentor and develop the new recruits. The community is thus seeking new measures, tools and resources for external recruitment, as it estimates that over the next five years it may have to recruit between 2,500 and 3,300 employees to build a renewed and rejuvenated science and technology work force.

**Background and other observations**

**9.3** At 31 March 1998, the federal government had close to 20,000 scientific and technical employees working in science-based departments, agencies, Crown corporations and research establishments in the fields of natural sciences and engineering (hereinafter referred to as the "science and technology community").

**9.4** The science and technology community makes an important contribution to the government's 1996 science and technology strategy, which focusses on sustainable job creation and economic growth, improved quality of life and the advancement of knowledge.

**9.5** Expenditure and work force reduction in the public service has changed the profile of the science and technology community and worsened the long-identified problems of rejuvenation and recruitment. The change in the age profile is a major challenge to the future of the community. Not only have most senior and experienced scientists and technologists left the government since 1994, but the youngest and most promising as well.

**9.6** Following our 1994 audit of federal science and technology activities, the community mobilized to develop a management framework and a results-oriented plan for human resources management in science and technology. It addressed such issues as the need for a more strategic approach to the management of scientific personnel; for more systematic renewal of scientific personnel; and for more effort to maintain the skills and knowledge base in research establishments. Working groups were created to study important human resource issues. Among their recommendations to the Science and Technology Senior Steering Committee on Human Resources was that new mechanisms be adopted and human resource strategies developed to improve the management of science and technology personnel in science-based departments and agencies.

**9.7** In 1994, we pointed out the need to develop a stronger and more effective management capability. Since then, the community has developed a competency profile for science and technology managers. During our consultations, we noted that most science-based departments used their own competency profiles instead of the one developed by the working group. Moreover, their profiles were being used solely to identify training needs and generally not for purposes of manager recruitment, promotion or performance assessment. Present practices suggest a lack of consensus in the community on the management competency profile defined by the working group. This could eventually prevent the integration of recruitment and training activities as well as the reward, promotion and compensation systems envisioned in the *Science and Technology Blueprint for Human Resources Management*.

**9.8** The Treasury Board Secretariat, science-based departments and agencies and the science and technology community have indicated that they are committed to following through on the strategies and plans developed to date.

# Indian and Northern Affairs Canada

## Funding Arrangements for First Nations: Follow-up

## Chapter 10 – Main Points

**10.1** Indian and Northern Affairs Canada still needs to better match the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for billions of dollars they receive annually through the Department.

**10.2** The Department is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements, are appropriately resolved. Redress (resolution mechanisms) needs to be improved as an element of accountability.

**10.3** The Department has stated that it has slowed the rate at which the Financial Transfer Arrangement (FTA), a new type of funding arrangement, is being implemented in order to address issues concerning the willingness and ability of First Nations to adopt it. The Department still has a long way to go if it wishes to achieve its objective of implementing the FTA as the appropriate funding mechanism to replace other types of funding arrangements. It will need to find ways to expedite the conversion process while improving co-ordination of funding with other federal departments.

**Background and other observations**

**10.4** Funding arrangements are a key element in the relationship between First Nations and the federal government. Parliament appropriates about $4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and other Aboriginal groups.

**10.5** In our November 1996 Report, we made recommendations relating to funding arrangements, including the FTA, and to the co-ordination of funding across federal departments. We also made recommendations on accountability issues and on the suitability of funding arrangements for the needs of the Department and First Nations.

**10.6** This follow-up focusses on the Department's implementation of our 1996 recommendations.

**The Department believes that with respect to redress, the follow-up extends beyond the issues raised in 1996; however, it has acknowledged that continuing effort is needed to improve certain aspects of funding arrangements, including accountability.**

# Agriculture Portfolio

## User Charges

## Chapter 11 – Main Points

**11.1** We noted a number of good practices in the way Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency have designed and managed fees they charge to users of their services. But these organizations do not yet meet all the requirements of the government's policy on user charges. Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share.

**11.2** Our audit found that the organizations often view user fees primarily as a means of generating revenue, ignoring their potential to achieve other possible benefits. For example, the Canadian Food Inspection Agency often charges the same fee for inspections whether or not food inspectors have found deficiencies, even though an inspection that has found problems entails additional time. This provides no incentive for the industry to comply with regulations and thereby minimize the time government inspectors need to spend.

**11.3** The organizations we audited need to make major improvements in the way they report to the public, the industry and Parliament on their plans for user charges and on the results. Despite the fact that this is a contentious issue that has sparked a great deal of interest from Parliament, the organizations in most cases have not publicly explained why specific user charges were needed and how they would be applied. Nor have their reports provided enough information to allow readers to judge whether user charges are managed properly.

**11.4** The three organizations need to improve their management of user charges in a number of areas, including costing their services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into their strategic planning.

**Background and other observations**

**11.5** In its 1997 Cost Recovery and Charging Policy, the federal government states that user charges should be implemented for "services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public, unless overriding policy objectives would be compromised." A key underlying principle is that user charges provide benefits much broader than the revenue generated, such as making services more responsive to users' needs.

**11.6** Organizations in the agriculture portfolio charge for many different services. For example, the Canadian Grain Commission charges the grain industry for weighing and inspecting grain destined for export. The Canadian Food Inspection Agency charges importers and exporters to inspect plants and plant products for pests or diseases. Agriculture and Agri-Food Canada charges owners of cattle that graze on community pastures for services it provides.

**11.7** User charges have been a focal point of much concern in the agriculture sector. Over the past five years, revenues from user charges in certain areas have increased by as much as 300 percent. Producers and the industry have objected to the way the fees were introduced and to the cumulative impact they have had. Some have contended that the fees were simply a tax.

**11.8** A moratorium on new fee increases was announced at the time the Canadian Food Inspection Agency was created, to be in effect until the year 2000. Officials of the three organizations have given many different

interpretations of not only how long the moratorium will last but whether it applies to other organizations in the portfolio. We note that the organizations we audited believe they are constrained from correcting even known inconsistencies among fees and responding to changes in their business environment. In our view, the period of the moratorium offers them an opportunity to reassess their current position, develop guiding principles and plan improvements.

**11.9** The organizations face specific challenges in that they recover fees from individuals they also regulate. It can be difficult to establish the amount that users of a service should be charged for the benefits they receive when the service also benefits the general public. There is a need for broader consultation, where possible, that takes into account the interests of both industry and the public. Those who pay fees want to influence how services are provided, and the organizations must ensure that the needs of all stakeholders are taken into account.

**11.10** The three organizations need to make key decisions on user charges and take action to resolve the following situations:

- Recent changes in its operations and in the grain industry have made the existing fee structure of the Canadian Grain Commission no longer appropriate.
- The Canadian Food Inspection Agency initiated fee increases but has not completed its plan for user charges. Consequently, commodity groups are paying different proportions of the Agency's costs for similar service, which represents inconsistent treatment.
- Agriculture and Agri-Food Canada has not explained adequately when, how and why user charges are implemented for each of its programs. Consequently, the reasons why some programs have user charges and other, similar programs do not remain unclear.

**The responses to our recommendations from Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission are included at the end of this chapter. Each of the organizations has said that it will act upon the recommendations that apply to it.**

# Agriculture and Agri-Food Canada

## A New Crop: Intellectual Property in Research

## Chapter 12 – Main Points

**12.1** The context of intellectual property related to food production in Canada has changed dramatically in the last 10 to 15 years. This is forcing Agriculture and Agri-Food Canada's Research Branch to seriously rethink its way of managing its own intellectual property. It faces the following issues:

- What should the Research Branch do when it makes a discovery that leads to an invention? Should it publish it, or legally protect it and then license it to others? If it does license it, should it license it to one organization or many?
- How should the Research Branch deal with intellectual property of others that it uses in its own research? For example, if it develops a new potato by taking advantage of private sector patents, will this hinder its ability to get the new product into the hands of producers? Should the Branch buy access to private sector patents? Should it barter with its own patents?

We believe that it is important for the Branch to answer these questions — how best to release its intellectual property and how best to acquire the intellectual property of others — because they have implications for the future success of agriculture. As Canada's agriculture sector becomes more and more sophisticated, it depends increasingly on exchange of and access to new knowledge coming from the Research Branch and other organizations. Answers to these questions also have implications for future government revenues from intellectual property.

**12.2** Particularly urgent is the risk to the Branch's continued ability to provide the agriculture sector with innovations. The risk stems from its significant use in research projects of intellectual property owned by others. Should it encounter significant obstacles to procuring the rights to use these proprietary technologies, the Branch may have to alter, postpone or abandon current research initiatives.

**12.3** The Research Branch is endeavouring to cope with these challenges, but this has become difficult due to substantial changes in the Branch and in the agri-food sector. In our opinion, the Branch needs to hasten and expand its efforts. A decision framework is needed to guide employees in deciding which research products should be legally protected, how to best acquire new intellectual property and how to best release its own protected intellectual property. Other tasks facing the Branch are to improve communication with staff; improve information on the Branch's intellectual property; and improve the integration of stakeholders' views into decision making. An overall approach to managing intellectual property is needed.

### Background and other observations

**12.4** Intellectual property is information that is useful and transferable and controlled by someone. It includes inventions, some of which are controlled through patents and others that are controlled by secrecy. It also includes plant varieties and plant materials. Until recently, there were few ways to protect intellectual property stemming from agricultural research, and new crops offered little monetary return to the breeder. New crop types can now be protected under the 1990 *Plant Breeders' Rights Act*, and some new biotechnology processes can be protected by patent.

**12.5** The Research Branch is the part of the federal agriculture department that does scientific research. It has a budget of about $250 million annually and is a key player in agricultural research in Canada. It is a major contributor to "Innovating for a Sustainable Future", one of the Department's business lines. It first made its mark more that 100 years ago with the release of Marquis wheat, which greatly helped develop Prairie agriculture. Current revenue from the Branch's intellectual property licenses is around $3.4 million a year, a minor but growing part of its $250 million budget.

**12.6** The challenges the Branch faces in managing intellectual property include the accelerated pace of change, especially in the field of biotechnology; uncertainty in the Branch brought on by downsizing and a greater focus on research partnerships; the need to consult broadly on intellectual property policy; the high cost of protecting and enforcing its intellectual property rights; the need to understand the market for its intellectual property; and the need for good management information.

**The Department has accepted our recommendation and has committed its Research Branch to work to develop and communicate a general framework for managing the Branch's intellectual property.**

# National Defence

## Hazardous Materials: Managing Risks to Employees and the Environment

## Chapter 13 – Main Points

**13.1** Our audit at 10 Canadian Forces bases found widespread, frequent and recurring instances in which National Defence did not meet the legal and policy requirements that govern hazardous materials. Such instances may put employees and the environment at increased risk.

**13.2** The Department has made efforts to improve its management of hazardous materials. While there are few clear measures of the impact of these efforts, we did find that injury rates for hazardous material injuries that require at least one day off work declined by more than half from 1993 to 1997.

**13.3** The 10 bases that we audited do not periodically monitor their air or liquid effluent emissions for all hazardous material contaminants on which limits are set by federal laws or guidelines. As a federal agency, the Department is not legally bound by provincial or municipal laws and bases do not monitor emissions and effluents against all of those standards.

**13.4** There is a lack of information on the overall state of compliance with legal and policy requirements. The existing management systems to ensure compliance at the base and unit levels do not promote continual improvement. Objectives are not set, plans do not exist, audit and inspection programs are not consistent and performance information is lacking. These are major factors in the instances of non-compliance by the Department with legal and policy requirements.

### Background and other observations

**13.5** National Defence uses more than 6,000 hazardous products, such as gasoline, ammunition and battery acid. The Department estimates that at least one quarter of its 80,700 full-time employees come into frequent contact with hazardous chemical products, and that every worker may have some contact with hazardous materials.

**13.6** It is the Department's policy that its hazardous materials management activities must meet or exceed the letter and spirit of applicable federal acts, regulations, policies and guidelines and, where appropriate, be compatible with provincial acts and municipal and international standards. The Department has not defined the meaning of "where appropriate".

**13.7** Our audit focussed on how the Department is implementing its policy and programs related to hazardous materials. We looked at policies, procedures and results at National Defence headquarters, and conducted field work at 10 bases. We also reviewed how the Department is implementing relevant sections of its sustainable development strategy.

**13.8** Leadership is needed to set targets, to identify and monitor performance measures, and to follow up to ensure that programs are implemented. Commanders and managers have opportunities to demonstrate leadership when they revise the Department's sustainable development strategy and implement environmental management systems.

**The Department responded positively to all our recommendations and proposes to take action that should address the problems our audit identified. In particular, the Department told us it is committed to rectifying situations of non-compliance with the requirements of the Workplace Hazardous Materials Information**

**System; reviewing its effluent monitoring procedures and plans for air emissions; identifying provincial and municipal regulations and policies applicable at each base and wing; and establishing core requirements for audit and inspections to ensure consistency.**

**The Department did not fully accept our conclusions about the level of non-compliance, contending that its audits have identified relatively few instances each year.**

# National Health Surveillance

## Diseases and Injuries

## Chapter 14 – Main Points

**14.1** We observed weaknesses in national surveillance of diseases and injuries that, taken together, have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases and with other health threats. Second, they compromise its ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

**Background and other observations**

**14.2** Health surveillance is a core function of public health. National surveillance of communicable and chronic diseases and of injuries is conducted mainly by Health Canada's Laboratory Centre for Disease Control (LCDC), part of the Health Protection Branch. LCDC depends greatly on its interaction and collaboration with the provinces and territories and a variety of other federal departments and non-governmental organizations.

**14.3** There is no specific legislation, policy or agreement that links separate components of public health functions at the various levels of government. Indeed, there is a void: current health surveillance activities are largely carried out on an ad hoc basis.

**14.4** We found few formal agreements or protocols in place to prevent the entry into Canada of serious communicable diseases and to deal with disease outbreaks and threats to public health. The lack of attention to formalizing the way these threats are to be managed places the health of Canadians at undue risk.

**14.5** Key surveillance systems that we looked at were not working as intended. For a number of reasons, they were not enabling Health Canada to effectively monitor communicable diseases such as influenza, AIDS, tuberculosis and food-borne disease. The same is true of systems for surveillance of injuries and chronic diseases such as cancer, diabetes, and heart disease and stroke. We also found that performance measurement and reporting of results need to be improved.

**14.6** Work has begun on strengthening the Health Protection Branch's future surveillance capacity. An important step in this regard is the Branch's support of an integrated national surveillance network for public health information. It is unclear when such a network will be implemented, and it is paramount that all parties involved in this network remain committed to its implementation.

**Health Canada's responses to our recommendations are included in this chapter. The Department concurs with the recommendations and has agreed to take corrective action. In some cases, this action is already under way.**

# Management of a Food-Borne Disease Outbreak

## Chapter 15 – Main Points

**15.1** In the spring of 1998, there was a nation-wide outbreak of a food-borne disease; it was one of the largest outbreaks of food-borne disease in Canadian history and involved the investigation of more than 800 reported cases across Canada. Over 80 percent of the affected were children under 15 years of age. At least 60 were hospitalized.

**15.2** Some important aspects of the response to the outbreak worked well, but others did not. The contaminated product was identified quickly and its removal from points of sale was started immediately after the issuing of a recall. However, there was a lack of timely exchange of information to identify the scope of the outbreak. There was also a lack of full co-operation among the agencies involved in the response to this outbreak. The Canadian Food Inspection Agency (CFIA) did not share certain distribution information when requested by provincial public health officials to assist in the investigation. In addition, the CFIA's abrupt decision not to lead one of the plant inspections resulted in confusion and unnecessary delay.

**15.3** A formal framework is needed that sets out clearly the roles and responsibilities of Health Canada's Laboratory Centre for Disease Control (LCDC) in relation to those of other participants, in order to guide the response to threats to public health. Many individuals could have avoided this illness had the federal and provincial health departments acted more quickly.

### Background and other observations

**15.4** The case described in this chapter illustrates many of the issues discussed in Chapter 14 on National Health Surveillance and the management of outbreaks and threats to public health. The audit looked at how federal and provincial agencies — Health Canada's Laboratory Centre for Disease Control and Food Directorate, the Canadian Food Inspection Agency, and provincial and local public health departments — responded to this nation-wide outbreak of a food-borne disease.

**15.5** Food-borne diseases have important implications because of the wide distribution of food products and the resulting potential for affecting very large numbers of people spread over wide geographic areas.

**15.6** The activities of the Laboratory Centre for Disease Control involve the timely investigation and control of disease outbreaks, often in collaboration with provinces and other federal agencies — in particular, with the Canadian Food Inspection Agency in the event of a disease caused by food. The CFIA is responsible for enforcement actions in food-related emergencies and is to take a lead role in investigations and co-ordination of food safety emergency responses. Health Canada's Food Directorate is responsible for assessing the effectiveness of the CFIA's food safety activities. Provincial and local medical officers of health have a legislative mandate to investigate disease outbreaks, and provincial laboratories provide laboratory services.

**15.7** We found that LCDC was not well prepared to manage disease outbreaks. It had no established operating procedures to respond to food-borne disease outbreaks. In addition, there were no formal protocols between Health Canada, the CFIA and the provinces that clearly defined procedures and the role of LCDC in relation to the roles of other participants in the investigation of disease outbreaks.

**15.8** There was a lack of transparency in the post-outbreak reviews undertaken by LCDC and by the CFIA. In such situations, particularly given that the cause of the contamination was never found, we believe it is in the interest of public health that all participants contribute to, and learn from, such reviews.

**Responses to our recommendations from Health Canada and the Canadian Food Inspection Agency are included in this chapter. Both Health Canada and the Canadian Food Inspection Agency concur with the recommendations and have agreed to take corrective action. In some cases, this action is already under way.**

# Revenue Canada

## Goods and Services Tax: Returns Processing and Audit

## Chapter 16 – Main Points

**16.1** We found that Revenue Canada's Summerside Tax Centre, until recently its sole GST processing centre, has steadily become more efficient. It has streamlined several processes, enhanced its error correction procedures, reduced unit costs and improved the timeliness of its processing operations. As a prelude to decentralizing the processing of GST returns, Revenue Canada further simplified its processing procedures. The results of a pilot test point to further efficiency gains.

**16.2** At present, standards for returns processing tend to place insufficient emphasis on quality, accuracy, timeliness and unit cost, and the use of performance information is hampered by problems with the availability and reliability of data. Better performance measures would help to manage interest costs and improve service to registrants.

**16.3** Revenue Canada can do more to improve the performance of its set of automated validity checks. These checks are the cornerstone of its pre-payment audit program. However, they are not particularly discriminating in their initial targeting of inappropriate refund claims. Revenue Canada also needs to consider reviewing and auditing returns on which refunds are not requested at the same time as it conducts pre-payment audits of refund requests.

**16.4** Many of Revenue Canada's post-payment audits consume too many staff hours and go on for too long. Revenue Canada needs to help its auditors shorten their audit times by providing closer supervision and by encouraging better planning, execution and control of audit work. Audit performance may also be improved by better selection of registrants for audit.

**Background and other observations**

**16.5** The introduction of the Goods and Services Tax (GST) in 1991 had a huge impact on Revenue Canada's activities. The Department had to develop a completely new processing operation and techniques to verify the accuracy of the returns submitted by almost 2 million registrants, ranging from small entrepreneurs to multinational corporations.

**16.6** In 1993, Revenue Canada opened a new tax centre in Summerside, Prince Edward Island to process all GST returns and rebate forms from non-Quebec registrants. (The ministère du Revenu du Québec administers GST processing and audit of Quebec registrants.) The Summerside Tax Centre employs the equivalent of about 660 employees and has an annual operating budget of about $28 million.

**16.7** Revenue Canada now processes about 5.5 million GST returns each year, as well as 200,000 domestic rebate forms and 3 million remittances from GST registrants.

**16.8** The Department has begun to decentralize a portion of its GST processing activities to tax centres across the country. The processing of rebate forms will continue to be done in Summerside.

**16.9** While, in general, GST returns processing is a tax centre activity, Revenue Canada's audit programs are performed by auditors in tax services offices across the country. There are two major audit programs. The first is the pre-payment audit program, which accounts for about 25 percent of auditor time. After the data have been processed but before refunds are issued, Revenue Canada applies a variety of automated validity checks to ensure

that requests for refunds are appropriate. The checks are designed to capture the requests with the highest risks of non-compliance. The captured refund claims are sent electronically to tax services offices across Canada for review and, in some cases, for audit. In 1997–98, the GST pre-payment audit program resulted in assessments of about $165 million.

**16.10** Revenue Canada also performs post-payment audits. These audits account for about 75 percent of auditor time and focus not only on particular returns but also on registrants with the highest risk of non-compliance. In 1997–98, this work resulted in assessments of about $355 million.

**16.11** We examined the efficiency and effectiveness of the GST returns processing and audit functions. The efficient and effective use of resources is important because it has a direct impact on protecting the public purse and improving service to registrants.

**Revenue Canada's responses to our recommendations are included in this chapter. The Department is in agreement with the seven recommendations, and its responses describe a number of actions that have been completed or are in progress to deal with them.**

# Canada Infrastructure Works Program

## Phase II and Follow-up of Phase I Audit

## Chapter 17 – Main Points

**17.1** The follow-up to our 1996 audit chapter indicates limited progress in addressing the deficiencies we identified in Phase I of the Canada Infrastructure Works Program. Our 1996 observations dealt with the need for clearer definitions of program objectives and project selection criteria, as well as the need for improved information, including better measurement and reporting of job creation. The main area of improvement has been environmental assessments; as well, a start has been made in responding to the need for compliance audits. However, most of our concerns have not been addressed.

**17.2** The Program was implemented within very demanding time frames. Federal and provincial program managers view the program approach positively and regard it as having contributed to strong federal-provincial relations and co-operation. The Program's output from 1994 to date has involved mobilizing and co-ordinating the efforts and resources of three levels of government and other partners to plan and implement more than 17,000 engineering and construction projects nation-wide.

**17.3** Our audit of Phase II indicates that, from an overall federal perspective, the Program is essentially "running on trust" with little accountability. Criteria for project selection were not clearly defined, and many of the files we reviewed lacked persuasive evidence to justify applicants' claims relating to selection criteria. In most cases, federal officials recommended projects for approval without ensuring that applicants' claims were adequately supported.

**17.4** We found that federal officials relied on municipal and provincial certifications with respect to costs claimed. The implementation of compliance audits, which, among other things, represent a means of obtaining assurance on the adequacy of financial controls, has been slow.

**17.5** There are incentives for provincial governments to transfer their budgetary resources away from their own programs to the federal infrastructure initiative. However, this program substitution is not inevitable; in two provinces, for example, safeguards were put in place in Phase I to limit the "substitution effect". Any substitution that does occur reduces the Program's infrastructure development and job creation benefits. The Treasury Board Secretariat has not set out the limitations of estimates of employment generated by the Program in reporting them to Parliament.

### Background and other observations

**17.6** The Canada Infrastructure Works Program was introduced by the federal government in 1994 as a $6 billion temporary shared-cost initiative with the objectives of assisting in the maintenance and development of infrastructure in local communities and the creation of employment. In 1997, the government announced an extension (Phase II), involving an additional $425 million provided by the federal government, to be matched by a further $850 million from the provinces and other partners. For the most part, construction under both phases was scheduled to be completed by 31 March 1999.

**17.7** Construction of roads, bridges, and water and sewer networks predominated in both phases, accounting for well over 60 percent of total expenditures. Community, cultural and recreational services were of less significance in Phase II.

**17.8** The Canada Infrastructure Works Program is a contributions program, with a requirement for the payment of federal funds to be subject to performance conditions being met (such as project targeting) and to compliance with program requirements. However, our examination of the project files indicated that program officials have not adequately addressed these concerns.

**17.9** Finally, we found that progress has been made under Phase II in conforming with the requirements of the *Canadian Environmental Assessment Act*. However, where negative environmental effects have been identified, the specification and monitoring of mitigation measures remain inadequate.

**The Treasury Board Secretariat indicated that although improvements can and should be made in any future such programs, the chapter presents an inappropriately negative view of what was a highly successful program in terms of results and one that made a positive contribution to federal-provincial-municipal relations in Canada.**



# Public Works and Government Services Canada

## Alternative Forms of Delivery: Contracting for Property Management Services

## Chapter 18 – Main Points

**18.1** The contracting process used by Public Works and Government Services Canada (PWGSC) to contract out the operation and maintenance of two thirds of its buildings was well managed and consistent with the objectives of the Department. We found that the bidding process was open, transparent and fair. The contracts were well designed and the handover to the contractor went smoothly. A significant feature of the contracting process was the use of "fairness monitors" to provide independent assurance to the Department's senior management that the process was conducted fairly and in accordance with the rules.

**18.2** Because some of the key monitoring and control features were not in place at the time of the handover of operations, ongoing management of the contracts has been problematic. Important items that had to be ready at contract signing — such as budgets for the first year, assessments of building condition and performance indicators of tenant satisfaction — were not completed until well into the first year. As a result, the Department will not be able to carry out a complete assessment of the contractor's performance in the first year and thereby get full assurance that it is receiving the quality and quantity of service to which it is entitled.

**Background and other observations**

**18.3** Public Works and Government Services Canada, through its Real Property Services Branch (RPS), is the primary landlord of a significant proportion of the government's real property holdings. Its inventory amounts to about 6 million square metres of space — from office buildings, laboratories and warehouses to the Parliament buildings and other "national treasures". It also administers 3,000 leases representing annual rent of $550 million. This makes the Branch one of the largest property managers in the country.

**18.4** In 1996, the Department embarked on an initiative called "Alternative Forms of Delivery" (AFD). A key element of the initiative was to contract out the management and operations of a portfolio of buildings, including services ranging from cleaning and the operation of building systems to maintenance, landscaping and repair projects. This initiative was a response to the government's 1994 Program Review and served as a strategy for restructuring the Branch around its core business activities. The Branch also wanted to support the Canadian property management industry and reduce costs through this initiative.

**18.5** The Department contracted out to the private sector the operations and maintenance of approximately 300 buildings with about 2.3 million square metres of office space. It expects to achieve about $20 million annually in cost savings by turning over the management of those buildings to the private sector.

**18.6** The buildings were regrouped by region and offered to the private sector in 13 separate contracts, with a total value of around $170 million. The same contractor won each of the 13 contracts. It offered jobs to almost all affected employees at full salary for a minimum of three years. About 465 employees accepted the transfer to the contractor.

**18.7** It is too early to assess whether savings the Department expects from this initiative will be achieved. We cannot measure at this time whether the Department will receive services at least equal to those it provided itself,

and receive them at lower cost. However, mechanisms were incorporated in the contracts that are conducive to achieving savings. We will follow up on these issues in future audit work.

**18.8** We encourage Public Works and Government Services Canada to continue to use "fairness monitors" for large and complex contracts. In a project of this scope and complexity, we did not expect to find that all contractual requirements would be fulfilled by the handover date. We did expect that the Department would have established an action plan to deal with the uncompleted deliverables. We have recommended that it develop an action plan with the contractor to deal with outstanding contractual issues, including target completion dates and respective responsibilities for resolving them.

**The Department has agreed with our recommendation.**



# Industry Portfolio

## Investing in Innovation

## Chapter 19 – Main Points

**19.1** This audit sought to determine if four grant and contribution programs, through which over $1.3 billion was spent over the last three years, were well designed to help improve Canada's innovation performance. We audited the following programs:

- Industrial Research Assistance Program — National Research Council (NRC)
- Research Partnerships Program — Natural Sciences and Engineering Research Council (NSERC)
- Networks of Centres of Excellence — NSERC
- Technology Partnerships Canada — Industry Canada

**19.2** We expected that these programs would be based on a sound understanding of innovation performance problems in the economy. We found that while there is a wealth of information on various aspects of innovation performance in the economy, it is unclear what this information means when considered together. Moreover, we found that management has not defined what specific innovation performance problems these programs are supposed to address, nor what specific results are expected from them toward promoting innovation.

**19.3** We also sought to determine if these programs were well managed and if management knew whether value for money was being achieved. We could not assure ourselves that many of the contributions under the Industrial Research Assistance Program and many of the grants under the Research Partnerships Program were properly supported. While the technological merit of the projects we examined had been well documented, there was often little explanation of the commercial or pre-commercial benefits expected from the projects, and of the need for government support. There are also important performance issues for which management has little information — in particular, on the commercial or pre-commercial results of funded projects.

**19.4** We concluded that due diligence had been exercised in the grants we audited under the Networks of Centres of Excellence program. We also concluded that the management of Technology Partnerships Canada (TPC) had exercised due diligence in making the contributions that we audited, with specific exceptions. TPC could make improvements in monitoring the progress and results of funded projects, and in reporting to Parliament on how it shares risks and returns with funding recipients.

### Background and other observations

**19.5** The government has made building a more innovative economy one of its policy goals. A number of recent government reports have referred to an "innovation gap", meaning that Canada is not innovative enough compared with its main trading partners. These reports argue that weaker innovation performance lies at the heart of broader performance problems in the economy — particularly lower productivity in relation to the United States.

**19.6** However, our review of the issues suggests that the causes and effects of this gap are not straightforward. While innovation is undoubtedly an important factor in economic growth, assessing the actual innovation performance of the economy is a multifaceted challenge. Although a comprehensive assessment is still difficult to make, there is growing evidence that Canada's performance lags behind that of its major competitors in a number

of specific ways. It is reasonably clear that better innovation performance depends on more than just increased spending on research and development; it involves supporting research and development with the activities needed to embed new technologies in the economy. It seems equally clear that spending on research and development is not the only determinant of the Canadian economy's rate of productivity growth, and may not be the most important one.

**19.7** Promoting innovation in the economy is one of the principal objectives of the Industry Portfolio, which is made up of the organizations for which the Minister of Industry is responsible. The programs we audited focus on supporting research and development and account for the bulk of the grants and contributions made by the Portfolio toward that objective:

- The National Research Council delivers the Industrial Research Assistance Program, which helps small- and medium-sized enterprises develop and exploit technologies ($120 million in 1998–99).
- The Natural Sciences and Engineering Research Council delivers the Research Partnerships Program with the objective of fostering interactions and partnerships between university researchers and other sectors in order to generate new knowledge and develop new expertise, and to transfer this new knowledge and expertise to Canadian-based organizations ($95 million in 1998–99). NSERC also delivers the Networks of Centres of Excellence program to improve Canada's performance in science and technology, and to facilitate transfer of knowledge to those who can use it to advance Canada's social and economic development ($47 million in 1998–99).
- Technology Partnerships Canada is a special operating agency within Industry Canada. It is intended to promote the development and commercialization of innovative technologies that contribute to increasing economic growth and creating jobs and wealth ($250 million in 1998–99).

**The responses of Industry Canada, the National Research Council and the Natural Sciences and Engineering Research Council to our recommendations are included in the chapter. The two councils have agreed to act on all of our recommendations. Industry Canada has agreed to act on all but one of our recommendations. The Department has indicated that no additional measures are required to address our recommendation concerning the justification for the amount of its contributions.**

# Fisheries and Oceans

## Pacific Salmon: Sustainability of the Fisheries

## Chapter 20 – Main Points

**20.1** The Pacific salmon fisheries are in trouble. Catches have declined overall, but the commercial catch has plummeted. The long-term sustainability of the fisheries is at risk because factors like overfishing, habitat loss, and declining ocean productivity have eroded the resource base. The result is a fisheries management crisis that has cast a cloud of uncertainty over the future of the salmon fisheries. Salmon fishing will continue, but more stringent controls are needed in the short term to ensure that salmon survive for the benefit of future generations.

**20.2** The management challenge for the Department of Fisheries and Oceans is to conserve existing stocks and rebuild those that are at low levels, while maintaining the viability of the fisheries. It will have to adapt its management regime to the new realities and gain the acceptance and support of stakeholders if it is to be successful. These will be difficult tasks to accomplish.

**20.3** The Department now needs to:

- identify information needs and priorities;
- review the consultation process and identify areas for improvement;
- implement integrated fisheries management plans;
- complete the downsizing of the fleet as a priority;
- establish an independent allocation board; and
- develop a better working relationship with the Province of British Columbia where fishery issues are concerned.

**Background and other observations**

**20.4** The Department has already taken the first steps to address the challenges it faces. It has affirmed conservation as its primary objective to protect existing salmon stocks and rebuild the resource base. In 1998 it announced a new policy, *A New Direction for Canada's Pacific Salmon Fisheries*, to direct its management activities in the future. The regional office has developed and is implementing its strategic plan for 1998–2001 based on this policy.

**20.5** In addition to the management of larger stocks targeted primarily by the commercial fishery, the regional office has begun to focus more on the conservation of smaller stocks that are important to the Aboriginal and recreational fisheries. It has taken a conservation-based approach to fisheries management and is testing selective fishing methods and gear, in addition to implementing special programs such as fleet reduction and restructuring. However, there are areas that need attention if policy objectives are to be attained. The most important are improving regional databases and information management to enable it to manage Pacific salmon on a stock-by-stock basis, and resolving consultation problems to improve stakeholder relations and move toward forming partnerships to share management responsibilities and offset costs.

**20.6** The Department will need time to adjust to the new management regime. During this time, fisheries will be subject to closure to allow stocks to recover. Improvements cannot be expected to occur quickly, given that

salmon life cycles can extend to five years or longer and salmon need time to adjust to changes in their freshwater and marine habitats. Finally, the future sustainability of the fisheries will depend not only on the Department's ability to implement its New Direction policy but also on its success in enlisting the help of stakeholders and the provincial government to share the workload.

**The responses of Fisheries and Oceans to our recommendations are included in this chapter. The Department agrees with all 13 recommendations and notes that initiatives are under way in several areas.**

# Financial Information Strategy

## Departmental Readiness

## Chapter 21 – Main Points

**21.1** We found that most departments are just starting to focus on the Financial Information Strategy (FIS) despite the fact that the target implementation date for FIS, 1 April 2001, is less than two years away. At the time of our audit, while most departments had implemented new financial systems, they still had a lot of work to do to prepare these financial systems and to implement the accrual accounting policies to meet FIS requirements. Strategies for preparing managers to use the information provided by FIS to strengthen management decision making are not yet in place. We are also concerned that FIS is not seen as a high priority by senior managers.

**21.2** In our view, the Treasury Board Secretariat, overall project manager for FIS, will need to assume a greater leadership role, drawing on some of the lessons learned in dealing with the Year 2000 problem. In particular, the central FIS Project Office will need to put in place and keep current an updated overall implementation plan, and use appropriate risk management capabilities, monitor implementation by departments and intervene constructively if problems arise. In addition, it will need to provide departments with required accounting policies and manuals, which are currently being developed, and assist departments in developing an appreciation of the use of FIS in day-to-day management.

**21.3** Public Works and Government Services Canada (PWGSC) effectively carried out the development and implementation of new central systems. PWGSC and its major partners, the Secretariat and Revenue Canada, worked together to conclude a successful pre-production pilot of those new systems. We found that the Department and its partners established a detailed plan and risk management capability, monitored progress and intervened when necessary, and met key target dates.

### Background and other observations

**21.4** As we reported last year in our first report on FIS (September 1998 Chapter 18), the government is making sweeping changes in the type of financial information provided to decision makers. Under the Financial Information Strategy, new financial systems throughout government are being implemented. But FIS is much more than the renewal of aging financial systems. The Strategy is also designed to help the government strengthen significantly its management of business lines and its accountability to Parliament. To do this, FIS will generate full accrual accounting information similar to that used by the private sector and integrate this information into day-to-day decision making of departmental managers. The Office of the Auditor General continues to support fully these stated objectives of FIS.

**21.5** The push for improvements in financial information to support government decision making started in 1962 with the Royal Commission on Government Organization (Glassco Commission). FIS was officially launched in 1989 and, after several false starts, the project was revitalized in 1995. A goal of April 2001 was published as the target date for implementation. We noted in our research that in some other jurisdictions, such as the Province of Alberta, the United Kingdom, Australia and New Zealand, financial management reform has progressed more rapidly.

**21.6** Parliament's Standing Committee on Public Accounts held a hearing on Chapter 18 in October of 1998. The Committee called for the Treasury Board Secretariat to proceed with "all diligence and speed" in pursuing the option discussed in the chapter of changing the appropriations process to focus on resources consumed to achieve results rather than simply resources acquired. We saw this change in the appropriations process as a necessary step

in creating demand by departmental managers for full accrual information to strengthen day-to-day management and decision making. The Committee also called for the Secretariat to monitor the progress of FIS across all departments and agencies and to provide Parliament with better estimates of the total implementation costs. Estimates of FIS costs are still largely unknown or undetermined; only 11 of 24 departments that we surveyed had partial or full cost estimates.

**21.7** One of the key aspects of successfully delivering a major initiative like FIS is the cultural change required at the management level to fully participate in and reap the benefits from the new approaches to informed decision making that FIS brings. The importance of change management has been well publicized in industry and in other government jurisdictions. Looking ahead, a major challenge for the Secretariat will be to provide guidance and lessons learned to departments with regard to this important issue.

**The Treasury Board Secretariat's responses to our recommendations are included in the chapter. In line with the recent decision to increase its focus on implementation of the Strategy, the Secretariat will monitor departmental progress and take into consideration our recommendations.**

# Attributes of Well-Managed Research Organizations

## Chapter 22 – Main Points

**22.1** We found that well-managed research organizations share a number of attributes that we have grouped under four themes:

- They **focus on people**, recruiting, developing and retaining the right mix of talent in a positive and supportive environment.
- They show **leadership**, aligning themselves with the needs of those who depend on them for results, achieving buy-in of the vision, values and goals, and undertaking the right research at the right time and at the right investment.
- They **manage research** to ensure excellence and results, the leveraging of resources, and the capture of organizational learning.
- They strive for a high level of **organizational performance,** being widely known and respected, and meeting the needs of those who depend on them for results.

**22.2** We developed the attributes following research and consultation with research managers in Canada and the United States. The attributes are not a recipe for action but rather statements of the direction that management action should take. They are supplemented by examples of practices used by organizations we visited.

**22.3** While the attributes describe ideal outcomes, and are therefore not attainable, they are stated so that progress toward the ideal is observable and measurable. In our view, the extent to which an attribute is demonstrated by an organization is a measure of the quality of its management.

### Background and other observations

**22.4** The federal government invested nearly $5.5 billion in science and technology (S&T) in 1998–99. Of that amount, $3.2 billion was spent by federal research organizations, with the balance being paid to outside organizations to undertake research and development and related scientific activities.

**22.5** In *Science and Technology for the New Century: A Federal Strategy* (1996), the federal government recognized the need for better management of S&T activities and provided new governance mechanisms and a set of general operating principles to improve S&T management across and within departments and agencies. Our work complements and reinforces the Strategy by describing what good management should look like in a research organization.

# Involving Others in Governing

## Accountability at Risk

## Chapter 23 – Main Points

**23.1** We found a total of 77 new governance arrangements across the federal government, involving annual expenditures totalling over $5 billion. Federal investments in some arrangements are quite small, such as the Canadian Industry Program for Energy Conservation, but others involve federal commitments of billions of dollars, such as the Canada Infrastructure Works Program.

**23.2** Under these arrangements, the federal government involves external partners in the planning, design and achievement of federal objectives, replacing delivery by federal employees, contractors or agents. These partners are not accountable to ministers and Parliament.

**23.3** These initiatives, if properly implemented, have the potential to improve the delivery of federal programs and services. However, many of the new governance arrangements we examined have been put together in an ad hoc manner that puts accountability to Parliament at unnecessary risk. Parliament has limited means under these arrangements — in some cases no means — of holding the government to account for the federal functions performed or the federal objectives to be achieved. Good will and trust alone, while essential in all arrangements, are not adequate insurance for continued success in the long term.

**23.4** For these new arrangements, the government does not have in place a consistent and generally accepted governing framework that safeguards the essential principles of our parliamentary system. Nor has it been adequately capturing and communicating the lessons being learned in these new approaches. In our view, the federal government remains accountable to Parliament for the use of federal tax dollars, assets and authorities, no matter what tools it uses or arrangements it puts in place with partners to achieve its public objectives.

**23.5** Parliament and the public need to be consulted on the development of an adequate governing framework that will reconcile new governance arrangements with accountability to Parliament for the exercise of federal functions by parties outside the federal government.

**Background and other observations**

**23.6** Over the last decade, the government has significantly increased its use of external partners in innovative arrangements to deliver federal programs and services to Canadians. In some cases, these arrangements have diffused federal power, by drawing outside parties into the process of actually governing Canadians in important areas of public policy that were once the sole domain of the federal government.

**23.7** The new governance arrangements we examined use a wide variety of approaches to program and service delivery. Provision for ensuring good governance and accountability to Parliament and the public is very patchy: we found limited reporting of performance, many weak accountability mechanisms, and inadequate attention to transparency and protection of the public interest. These need to be fixed.

**23.8** The government needs to ensure that departments and agencies setting up new arrangements address the essential issues of credible reporting to Parliament and the public, effective accountability mechanisms, adequate transparency and protection of the public interest. The Treasury Board Secretariat's leadership and commitment are needed in developing a governing framework and overseeing its use, recognizing that what constitutes appropriate and adequate specific provisions to address these issues will vary from case to case.

**23.9** There is a balance to be struck between the independence these arrangements need to operate efficiently to achieve results and the need for adequate accountability. In our view, appropriate accountability to Parliament and the public is not incompatible with independence from government intervention in operational matters.

**The response of the Treasury Board Secretariat is included at the end of the chapter. The Secretariat endorses the elements of the governing framework we propose, stresses the need for flexibility in their application and acknowledges the need for improvement in some areas. The Secretariat mentions several steps it is taking to address issues identified in this chapter.**

# The Canadian Adaptation and Rural Development Fund

## An Example of Involving Others in Governing

## Chapter 24 – Main Points

**24.1** The Canadian Adaptation and Rural Development (CARD) fund is a new governance arrangement developed by Agriculture and Agri-Food Canada to help farmers, producers and processors adapt to the new business realities of farming. Under the arrangement, projects to support agricultural adaptation are selected largely by the agriculture industry for funding.

**24.2** We found that a reasonable balance had been struck between giving industry councils the freedom to make the best decisions and respecting the public purpose of the funds. In designing this arrangement, the Department developed a number of good practices. However, we also found some areas that need to be improved.

**24.3** In conjunction with the Department, we developed an instrument to assess the capabilities of the adaptation councils. Pilot results suggest that the CARD councils rate well in most of the required competencies. We determined that the instrument could be useful for assessing the capabilities of parties in this new governance arrangement and perhaps in others.

**The Department accepts our findings and has committed to act on our recommendations, although no details have been provided.**

# Preparedness for Year 2000

## Final Preparation

## Chapter 25 – Main Points

**25.1** The government has made significant progress in preparing its systems that support government-wide mission-critical functions for the Year 2000 computer problem. The Treasury Board Secretariat reported that work on government-wide mission-critical systems was 99 percent complete at July 1999. Our audit supports the overall 99 percent completion rate for those systems. According to its plans, all government-wide mission-critical systems were to be ready for Year 2000 by 31 October 1999, two months before the new millennium.

**25.2** Health Canada and the Atomic Energy Control Board have established Year 2000 requirements for licensees of medical devices, nuclear power reactors and radioactive devices. Some follow-up is needed for medical and radioactive devices but the licensees for active nuclear power plants have met the requirements.

**25.3** Measures are being put in place for contingencies and national emergencies. Although contingency procedures have largely been defined, departmental contingency planning needs more work.

**25.4** We concluded that the government needs to remain vigilant to keep any Year 2000 disruptions to a minimum.

**Background and other observations**

**25.5** Year 2000, the two-digit year code problem, has been a cause of concern to industry and governments around the world. The estimated costs of addressing this problem run as high as US$800 billion worldwide. In August 1999, the federal government estimated the costs of its Year 2000 projects at $2.2 billion. According to the Treasury Board Secretariat, the final costs could reach $2.5 billion.

**25.6** In 1997 we audited the government's preparedness for Year 2000, and again in 1998. Our 1997 Report noted our concern about the slow pace of Year 2000 work; in 1998, we remained very concerned that some essential services might be interrupted in 2000. Most of our recommendations have been accepted and implemented by the government.

**25.7** In 1999, as we completed our work in individual departments and agencies, we reported our findings to management and suggested actions to consider. That additional step was taken to provide more time for departments and agencies to act.

**25.8** We verified the government's Year 2000 progress information as reported by the Secretariat against the information in its supporting files and we further reviewed departmental documents for seven government-wide mission-critical functions in six organizations. Our verification showed no substantive differences from the information reported by the Secretariat.

**25.9** In the departmental contingency plans we reviewed, we found that some key components were not complete or lacked specific details. In particular, plans for testing were weak and few organizations planned to complement the National Contingency Planning Group validation exercise with other tests of their contingency procedures.

**25.10** We have identified several issues that will require action beyond 1999, and have recommended measures for the government to take or to consider. They include moving to comply with government date standards; maintaining and updating valuable information bases developed from Year 2000 projects; and looking out for Year 2000 pitfalls after January 2000.

**The government's responses to our recommendations are included in the chapter. The government agrees with our recommendations and the responses identify the action that it will take to address them.**

# National Defence

## The Proper Conduct of Public Business

## Chapter 26 – Main Points

**26.1** National Defence has taken positive steps in each of the areas we reviewed in this audit: active support of ethical conduct, internal control and audit, and follow-up on complaints. However, each of these areas requires further improvement.

**26.2** The Defence Ethics Program, initiated by the Department in 1994 as a key response to ethical problems that had surfaced in recent years, has not yet been fully implemented throughout the Department and the Canadian Forces. The central design of the program has been completed, ethics components have been added to some training courses and ethics training for new recruits is progressing at a satisfactory pace, but other key elements are still not in place. In the military services there is a lack of commitment to the program, and its integration into personnel systems varies widely. The Department needs to move forward and make the program fully operational as soon as possible. To do so, it needs to develop an action plan with clear dates and deliverables.

**26.3** We also found weaknesses in the departmental control systems, including internal controls, internal audit and the military police. There is evidence that in some areas, controls over financial and materiel resources have weakened. While the central internal audit group has recently completed several studies of risks associated with delegated resource management, we are concerned that internal audit resources have fallen below prudent levels and that decisions about the level of compliance audit work necessary to detect and deter fraud and abuse are not based on adequate risk analysis. A few local commanders do not fully understand the new role of the Canadian Forces Provost Marshal in setting policy and standards for the military police. This has resulted in instances of interference.

**26.4** We examined how the Department responded to complaints directed to senior departmental management in National Defence headquarters. Allegations of such abuses of resources as unauthorized upgrading of official residences and misappropriation of government property have not always been dealt with adequately. Corrective action has been inconsistent and remedial action is slow. We have recommended that the Department track all complaint cases and ensure that they are resolved expeditiously.

### Background and other observations

**26.5** In recent years, National Defence has suffered from several highly publicized breakdowns in management and leadership conduct, most notably the subject of the Somalia Inquiry, and others related to misuse of resources. Over the past five years, the Department has also undergone extensive change: its budget has been reduced by almost 25 percent, an entire level of management has disappeared, and management has been substantially decentralized. This has posed significant challenges to the maintenance of management controls and the reform of the Department.

**26.6** In response to identified problems, senior officials in the Department directed the development of the Defence Ethics Program in February 1994. The program that was developed was approved in December 1997. It is based on the *Statement of Defence Ethics*, which consists of principles (respect, service and obedience to lawful authority) and obligations (integrity, loyalty, honesty, courage, responsibility and fairness). The program is intended to be implemented from the top down by group principals at headquarters and by the navy, army and air force chiefs of staff.

**26.7** The Department's strategy for implementing the Defence Ethics Program includes raising awareness, providing ethics training for military members and civilian employees, encouraging discussion and open dialogue and finding means to deal with ethical issues. It also includes assessing areas of risk to identify specific ethical problems. One of our objectives in this audit was to determine the extent to which the Defence Ethics Program has addressed the problems identified so far.

**26.8** In addition to the Defence Ethics Program, the Department continues to rely on controls such as internal audit, military police and management checks on compliance. We examined these areas as well. We also assessed whether National Defence responds appropriately to complaints about misuse of resources or misconduct.

**The Department responded positively to our recommendations and agreed to make several improvements. It said it would re-emphasize the responsibilities of managers for implementing the Defence Ethics Program and would assist them in making plans. The Department agreed to strengthen the risk analysis required to guide audits in the individual military services. It hopes to use automated data analysis to analyze transactions in order to identify irregularities. Finally, the Department said it is now tracking responses to complaints of abuse and is confident that most assessments will be complete within one year.**

# National Defence

## Alternative Service Delivery

## Chapter 27 – Main Points

**27.1** The Alternative Service Delivery (ASD) program at National Defence — a search for new and better ways of providing government services — is still in its early stages and has made gains at a slower rate than the Department had initially expected. Unconfirmed departmental estimates suggest that savings are currently about $68 million. Given the Department's $3.5 billion annual expenditures on support services, considerable scope for savings remains. In 1996 it projected that annual savings would reach $200 million by 1999. Based on results to date, however, the Department has revised this projection to $175 million a year by 2004.

**27.2** Many of the business case analyses for the 14 projects we audited were poorly done. Options were not always adequately assessed or the best option chosen. Personnel appeared to lack the necessary skills to undertake analyses. The Department has taken steps to improve its management of more recent ASD projects and believes it has corrected the earlier shortcomings.

**27.3** The government lacks an adequate policy framework for "partnering" with the private sector and contracting out large service programs. In particular, the $2.8 billion NATO Flying Training in Canada contract:

- was let without competition, contrary to government contracting policy and regulations, thus forgoing the benefits of price competition; and
- did not follow Public Works and Government Services Canada's profit policy and guidelines for sole-source contracts, and profit markups were not supported by adequate analyses.

**27.4** Inflexible contract arrangements resulted in payments for unused training capacity. For example:

- The Meaford Area Training Centre is operated under a $40 million five-year fixed-price contract. However, it was used at only 43 percent capacity in 1998.
- The Canadian Aviation Training Centre, Portage-la-Prairie operates a flying training program under a $165 million contract; it was substantially underutilized during the first six years.

**Background and other observations**

**27.5** According to National Defence, the aim of its ASD program is to provide a framework for departmental managers to pursue best value for the defence dollar in non-core activities. Through the program, it hopes to identify and use the most cost-effective ways of delivering support services, which constitute about one third of the Department's $10.3 billion budget. We noted that many of the activities being considered for the ASD program have already achieved savings through downsizing and re-engineering.

**27.6** When the Department launched the ASD program in 1995, it set a goal of saving $200 million a year by 1999 and $350 million a year by 2001. We audited 14 of its 40 active ASD projects. We audited only government actions and our observations imply no criticism of any third party supplying services to the government.

**The responses of National Defence, the Treasury Board Secretariat and Public Works and Government Services Canada are included in this chapter. National Defence is taking action to address all our recommendations. In particular, the Department is devoting a higher level of management attention to ASD projects and ensuring that staff are adequately trained.**

**With respect to our concern about the lack of an adequate policy framework for "partnering" with the private sector, the Treasury Board Secretariat and Public Works and Government Services Canada are currently participating in an interdepartmental initiative to reform procurement that will include, among other matters, work on guidance for large, multi-year service contracts.**

**National Defence believes that the NATO Flying Training in Canada program is innovative and will provide good-quality pilot training at a lower cost than the current training system or any other training option in the foreseeable future.**

# Canadian International Development Agency

## Financial Controls Over Projects

## Chapter 28 – Main Points

**28.1** CIDA's financial controls are effective in monitoring and controlling the flow of funds for projects, and in tracking the financial status of projects — that is, what has been spent and what remains to be spent. However, reports on the progress of projects often do not compare what has been accomplished with what was planned. This makes it difficult to determine the rate of progress or to analyze the financial implications of changes from expected progress. The result is a risk that project scope may have to be reduced or the budget increased to accomplish the intended objectives.

**28.2** CIDA uses audits as a means of ensuring that its executing agents are respecting the financial conditions in its contracts with them. These audits have generally indicated that expenditures by executing agents are largely in accordance with contract conditions. In the contracts we audited, the amounts identified as possible adjustments because of non-compliance with contract conditions were relatively small — $32.2 million out of about $932 million. However, CIDA's audits have also identified some persistent problems of non-compliance with contract conditions. CIDA has released (that is, waived) some dollar adjustments identified as amounts to be repaid by the executing agents as a result of non-compliance. The rationale for doing so was documented in most cases but, in our view, the reasons given did not always justify the releases. From our sample, we estimated these amounts to be $12 million to $13 million over the four years of reports we examined.

**28.3** We believe that the Performance Review Branch needs to be more active in auditing whether the system of financial controls is functioning as intended.

**Background and other observations**

**28.4** CIDA is responsible for managing about $1.8 billion of Canada's international assistance. Just over $1 billion represents contributions to third parties, usually referred to as Canadian executing agents (CEAs), to deliver development assistance projects. Executing agents may be Canadian or developing country institutions, provincial governments and their organizations and agencies, or Canadian private sector firms.

**28.5** CIDA has put in place a number of financial controls to support the management of its aid projects. At the centre of project management is the contract or the contribution agreement with the CEA. CIDA uses audits to ensure that CEAs are complying with its contracts and contribution agreements. In this audit, we wanted to see if CIDA's financial controls for projects were functioning as intended. We also wanted to examine the actions taken by CIDA to deal with the results of its compliance audits of these projects.

**28.6** Although we noted problems of non-compliance with contracts, in nearly all the contracts we examined we also observed that once there was agreement between CIDA and a CEA that money should be repaid, CIDA recovered the amounts owing. Information generated by the audits commissioned by CIDA was being assembled and analyzed, but was not presented to senior program management for action.

**The Agency has accepted our recommendations and agreed to take action to address the issues raised.**

# Federal Support of Health Care Delivery

## Chapter 29 – Main Points

**29.1** The federal government is not in a position to determine what its total contribution to health care really is. Federal funds are transferred under the Canada Health and Social Transfer in a block, providing provinces and territories with the flexibility to allocate these funds among health care, post-secondary education, and social assistance and social services. As a result, Parliament and the general public do not have a clear picture of the amount of federal funding directed to health care.

**29.2** Health Canada strives to administer the *Canada Health Act* in a non-intrusive manner. This approach has not brought about the speedy resolution of non-compliance issues and differences in interpretation of the Act. A new approach, using the provisions of the Social Union Framework Agreement, offers a process for avoiding and resolving disputes.

**29.3** Deficiencies in the Department's annual reports to Parliament compromise their usefulness: Parliament cannot readily determine the extent to which each province and territory has satisfied the criteria and conditions of the *Canada Health Act*. When the Department cannot provide this information in its reports, it should clearly explain the reasons.

**Background and other observations**

**29.4** The delivery of health care is a primarily provincial/territorial responsibility. However, the federal government administers a significant piece of legislation in this area, the *Canada Health Act*. To many Canadians, the *Canada Health Act* provides for a health care system that helps to define this country. It articulates health care as a basic right and describes the features of the health care system.

**29.5** The *Canada Health Act* establishes five criteria and two conditions as well as extra-billing and user charge provisions. All of these must be met if a province or territory is to receive the full federal cash contribution under the Canada Health and Social Transfer. The five criteria mean that regardless of where people live in Canada, they have universal access to a comprehensive, publicly administered health care insurance plan that will cover them if they move to another province and when they travel in Canada. With certain limitations, it also covers them when they travel outside Canada. The two conditions of the Act require provinces and territories to supply information that the federal government may reasonably require and to publicly recognize federal transfers.

**29.6** Federal funding is provided to provinces and territories and other organizations to assist them in carrying out their health care mandates and related health activities. Health Canada is responsible for the administration of the *Canada Health Act* and other programs in health and related areas, including recent initiatives to renew health care and strengthen health information and technology.

**29.7** We found that Health Canada does not have the information it needs to effectively monitor and report on the extent of compliance with the *Canada Health Act*. The only departmental evaluation undertaken in this area was limited in scope, and it was five years before results were reported to Parliament.

**29.8** The federal government is funding efforts to meet a wide range of information needs. Information is a critical tool for allocating resources and reporting on how well the health care system has served the public. This work presents major challenges that all parties concerned with national health information need to manage

carefully. In addition, Health Canada needs to move expeditiously to meet its commitment to report on the performance and effectiveness of its programs.

**29.9** The federal government has established the Health Transition Fund to support provinces in undertaking pilot projects to assess ways in which Canada's health care system can be improved. It has also introduced the Health Infostructure Support Program to help organizations involved in health care services further test and assess their use of information technologies. We found weaknesses in the management of both initiatives that, in our view, could compromise their usefulness as tools for helping planners to make sound decisions on health care delivery.

**Responses to our recommendations from Health Canada and the federal government are included in the chapter. Health Canada has agreed to take corrective action on those recommendations directed to the Department. The federal government is committed to improving information generally but has not responded to our recommendations on the provision of specific information.**

# Sole-Source Contracting for Professional Services

## Using Advance Contract Award Notices

## Chapter 30 – Main Points

**30.1** This chapter examines the government's practice of awarding sole-source contracts for professional services. It also examines a mechanism known as an Advance Contract Award Notice (ACAN), used widely by departments to advertise their intention to award sole-source contracts to a specific supplier.

**30.2** The principles of accessibility, competition, fairness to suppliers, transparency and best value lie at the core of government contracting policy. The contracting regulations require that all contracts be let through a competitive process, with certain very narrowly defined exceptions. When the contract is needed in an emergency, when the value is small, when it is not in the public interest to solicit bids (for example, if national security is involved) or when there is only one supplier who can do the work, the contract can be let without competition on what is called a sole-source basis. Almost 90 percent of the 50 sole-source contracts we examined did not fall under any of the exceptions or did not have adequate evidence of doing so and hence ought to have been competitively tendered. As in last year's audit of sole-source contracts for professional services, we concluded that the process of awarding most of the contracts audited in this year's sample would not pass the test of public scrutiny.

**30.3** We concluded that the ACANs associated with these sole-source contracts added transparency to directed contracting, because ACANs are publicly advertised (compared with the nearly 40 percent of sole-source contracts that are let without any public notice) and can be challenged before their expiry date. However, in our view the challenge process is flawed and discourages potential suppliers from submitting challenges. Only 35 of the 522 contracts that we reviewed had been challenged and only 4 of the challenges were accepted. We found the following:

- The information the ACANs provide is often vague and they are challenged infrequently. Furthermore, many ACANs are posted for less than the recommended 15 days. There is no policy defining the challenge process, nor any criteria for judging the validity of a challenge. Those who decide whether a challenge is valid are, for the most part, the same departmental officials who originally decided that the contract should not be open to competition. There is no recourse to appeal their decisions unless the contract is subject to trade agreements, in which case they may be appealed to the Canadian International Trade Tribunal. Mounting a challenge to an ACAN under these unfavourable circumstances requires the supplier to invest both money and good will, an investment that most find unattractive.
- Based on the 50 sole-source contracts selected for detailed examination, in most instances the decision to contract is not well considered, the requirements are often defined only vaguely, pricing is not done with due regard to economy and often deliverables are not assessed against the original requirements of the contract.
- The existing framework of contracting rules, policies and regulations for contracting is basically sound. However, the evidence shows that departments either do not understand this framework or in some instances choose not to follow it.

**Background and other observations**

**30.4** In 1997, contracts of $25,000 and above for all types of services (including professional services) had a total value of $3.9 billion. Of that amount, $1.34 billion was for sole-source contracts. An ACAN was posted for

over half of those ($830 million) and the balance ($510 million) were entered into without public notice of the government's intent to issue a sole-source contract.

**30.5** Our December 1998 Report (Chapter 26 — Contracting for Professional Services: Selected Sole-Source Contracts) noted that the process of awarding most of the contracts in the sample we audited that year would not stand the test of public scrutiny. In May 1999, the Standing Committee on Public Accounts supported the audit findings and expressed concerns about departmental practices as they relate to ACANs.

**30.6** The objective of the current audit was to assess the use of sole-source contracts and ACANs in professional services contracts by National Defence, Human Resources Development Canada, the Canadian International Development Agency and Industry Canada, and by Public Works and Government Services Canada on their behalf. Our audit included all 522 ACANs issued by, or on behalf of, the four departments in 1998, and examined in detail a sample of 50 of these.

**30.7** We have made recommendations designed to encourage and strengthen the accountabilities in departments and agencies for the exercise of delegated contracting authority by managers. Additionally, to strengthen the challenge process for contracts, including contracts let using ACANs, we have recommended that the government clarify the due process rights of contractors and establish an independent appeal mechanism for contractors.

**The Treasury Board Secretariat has indicated that the Treasury Board's contracting policies are based on the strong values and principles of competition, openness, equal access, transparency, fairness and best value for Canadians. It explains that the Board's role is to establish these policies and that departments, in turn, are accountable to their ministers and to parliamentarians for implementing them. The Secretariat commits to introducing a program of training and certification for procurement specialists as well as implementing a monitoring framework for evaluating contracting activities. While Treasury Board policy encourages contract review mechanisms and internal audits, the Secretariat does not believe that a mandatory policy requirement for a contract review mechanism in departments is necessary, nor does it support the recommended scope for internal audits of sole-source contracts. The Secretariat does not believe that an independent appeal mechanism for contractors that deals with contracts lying outside the purview of the Canadian International Trade Tribunal is necessary.**

# Department of Foreign Affairs and International Trade

## Delivery of Capital Projects in Four Missions

## Chapter 31 – Main Points

**31.1** This audit examined how the Department of Foreign Affairs and International Trade planned and implemented six capital projects at four missions in Seoul, New Delhi, Geneva and Bangkok. Capital costs for these missions totalled about $75 million, representing approximately 20 percent of the capital expenditures planned by the Department over the five-year life of its Long-Term Capital Plan.

**31.2** Delivering capital projects outside of Canada entails significant additional risks, difficulties and challenges not experienced in the delivery of capital projects domestically.

**31.3** The audit confirmed that valid reasons existed for initiating each of the projects and that users are generally satisfied with their new accommodation. Overall, the projects were delivered within budgets and project schedules. In general, contracts were awarded on a competitive basis and change orders were well managed. We noted several positive initiatives to address environmental concerns.

**31.4** However, we identified weaknesses in the preliminary planning of the projects. Indicative project estimates were incomplete and unreliable. The preliminary cost estimates of three projects increased by $38 million, representing increases ranging from 64 percent to 153 percent over their initial estimates. In one case, a poor cost estimate may have resulted in an uneconomical expenditure of $15 million. We estimate that, over the last five years, the opportunity cost of this payment totals $8 million.

**31.5** We are also concerned with the lack of rigour of the Department's analysis of options in support of their recommendations to the Treasury Board. We found instances where the Department failed to document the results of its analysis of various options that may have realized savings totalling at least $7 million over a 20-year period. We also noted weaknesses in the methodology used by the Department to support its investment decisions, and the lack of documentation to support a particular option.

**31.6** The quality of reporting to the Treasury Board to explain project delays and budget increases needs to be improved.

**31.7** In summary, the magnitude and frequency of increases in preliminary cost estimates and other problems identified by the audit seem to indicate that systemic weaknesses exist in the Department's planning of capital projects and these need to be addressed.

**Background and other observations**

**31.8** The Department of Foreign Affairs and International Trade manages a significant and diverse portfolio of office and residential accommodation, encompassing property in 160 locations in over 100 countries. The estimated value of these Crown-owned properties abroad is $1.5 billion to $2 billion and annual leasing and capital expenditures total approximately $110 million and $60 million respectively. The Department and other government departments use the facilities to deliver their programs.

**31.9** This audit reaffirmed our opinion that the government's administrative policies for managing capital projects are sound, but problems persist in their application.

**The Department of Foreign Affairs and International Trade agrees with the chapter's recommendations and has developed an action plan that addresses our concerns.**

# Follow-up of Recommendations in Previous Reports

## Chapter 32 – Main Points

**32.1** The majority of our reviews this year depict an improvement in the efforts made by management to take positive and effective remedial action. In other cases, we are concerned with the slow progress on fixing the problems — for a variety of reasons, as outlined in the various segments.

**32.2** The Department of Finance has gone to considerable effort in trying to address and resolve the issues we raised in our 1997 chapter about its equalization program. The changes enacted through Bill C-65 had a significant financial impact on the federal government and resulted in payments being more consistent with the principles of the program.

**32.3** At Human Resources Development Canada, the Department expended considerable effort to improve service to clients and manage the Canada Pension Plan Disability program more effectively. It took action in each area discussed in our 1996 chapter.

**32.4** The RCMP Public Complaints Commission has undertaken initiatives to address our previous audit concerns about reducing its backlog of cases and streamlining its complaint review procedures. However, it needs to further reduce its backlog, develop a communications strategy, restructure its information system and work with the RCMP to meet its review turnaround target.

**32.5** Our follow-up of Canada's Export Promotion activities found that Industry Canada and Foreign Affairs and International Trade have made significant progress on many operational matters; however, progress is much less evident in areas that would improve accountability for results. As well, Foreign Affairs and International Trade advised the Standing Committee on Public Accounts that it would propose a realistic and feasible service charging scheme, but the departments have decided not to implement charging for services. While the departments believe that the measures they have taken are sufficient, we are concerned that the progress we have observed will not be sustained if our other recommendations are not implemented.

**32.6** In our follow-up of financial management and control at Foreign Affairs and International Trade, we noted a lack of urgency in implementing a number of our recommendations; however, where the Department had focussed its efforts, it had made considerable improvements.

**32.7** The Treasury Board Secretariat has taken certain steps to respond to our recommendations on Renewing Government Services Using Information Technology. The Secretariat has made good progress in its monitoring and measurement of government-wide information management and information technology initiatives. However, progress over the past three years has been slow and, to date, full implementation of action to address our recommendations has been limited.

**32.8** A number of the original chapters were reviewed by the Standing Committee on Public Accounts. We feel that this has been instrumental in bringing about necessary changes.





## Chapter 33 – Main Points

**33.1** The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

**33.2** The "Other Audit Observations" chapter fulfils a special role in the Reports. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments, or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

**33.3** The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

**33.4** Observations reported this year cover the following:

- secret commissions/kickbacks for refueling military vehicles;
- the lack of financial control and management systems at CORCAN; and
- the Employment Insurance Account surplus.

**33.5** Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

# Report of the Auditor General of Canada to the House of Commons – 1999 Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 September 1999


| Chapter | |
|---|---|
| | Matters of Special Importance – 1999<br>Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

# Table of Contents

## September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |


## November 1999


| Chapter | |
|---|---|
| 20 | Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries |
| 21 | Financial Information Strategy: Departmental Readiness |
| 22 | Attributes of Well-Managed Research Organizations |
| | **Chapters 23 & 24** |
| 23 | Involving Others in Governing: Accountability at Risk |
| 24 | The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing |
| 25 | Preparedness for Year 2000: Final Preparation |
| | **Chapters 26 & 27** |
| 26 | National Defence – The Proper Conduct of Public Business |
| 27 | National Defence – Alternative Service Delivery |
| 28 | Canadian International Development Agency – Financial Controls Over Projects |
| 29 | Federal Support of Health Care Delivery |
| 30 | Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices |
| 31 | Department of Foreign Affairs and International Trade – Delivery of Capital Projects in Four Missions |
| | **Other Observations and Appendices** |
| 32 | Follow-up of Recommendations in Previous Reports |
| 33 | Other Audit Observations |
| | Appendices |

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| | #_____ | _____ English | _____ French |
| | #_____ | _____ English | _____ French |
| | #_____ | _____ English | _____ French |
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# Rapport du vérificateur général du Canada à la Chambre des communes – 1999

## Table des matières

## Septembre 1999 (suite)


| Chapitre | |
|---|---|
| 16 | Revenu Canada – Taxe sur les produits et services : le traitement des déclarations et la vérification |
| 17 | Le programme Travaux d'infrastructure Canada : Phase II et suivi de la vérification de la Phase I |
| 18 | Travaux publics et Services gouvernementaux Canada – Autres formes de prestation de services : l'impartition des services de gestion immobilière |
| 19 | Portefeuille de l'Industrie – L'investissement dans l'innovation |


## Novembre 1999


| Chapitre | |
|---|---|
| 20 | Pêches et Océans – Le saumon du Pacifique : la durabilité des pêches |
| 21 | La Stratégie d'information financière : l'état de préparation des ministères |
| 22 | Les caractéristiques des organismes de recherche bien gérés |
| | **Chapitres 23 et 24** |
| 23 | La régie en partenariat : la reddition de comptes menacée |
| 24 | Le Fonds canadien d'adaptation et de développement rural : un exemple de régie en partenariat |
| 25 | La préparation à l'an 2000 : l'étape finale |
| | **Chapitres 26 et 27** |
| 26 | Défense nationale – La conduite appropriée des affaires publiques |
| 27 | Défense nationale – Différents modes de prestation de services |
| 28 | Agence canadienne de développement international – Les contrôles financiers des projets |
| 29 | L'appui fédéral à la prestation des soins de santé |
| 30 | Les marchés de services professionnels conclus avec un fournisseur unique au moyen de préavis d'adjudication de contrat |
| 31 | Ministère des Affaires étrangères et du Commerce international – L'exécution de projets d'investissement dans quatre missions |
| | **Autres observations et Annexes** |
| 32 | Suivi des recommandations formulées dans des rapports antérieurs |
| 33 | Autres observations de vérification |
| | Annexes |

# Rapport du vérificateur général du Canada à la Chambre des communes – 1999
# Table des matières

## Volume 1 – Avril 1999


| Chapitre | |
|---|---|
| | Avant-propos et Points saillants<br>Autres observations de vérification |
| 1 | Service correctionnel Canada – La réinsertion sociale des délinquants |
| 2 | Revenu Canada – L'Initiative visant l'économie clandestine |
| 3 | Statistique Canada – La gestion de la qualité des statistiques |
| 4 | Pêches et Océans – La gestion durable des stocks de mollusques et de crustacés de l'Atlantique |
| 5 | Les mécanismes de collaboration : les enjeux pour le gouvernement fédéral |
| 6 | Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints : Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées |
| | **Chapitres 7 et 8** |
| 7 | La Stratégie du poisson de fond de l'Atlantique : les contributions et les subventions |
| 8 | La Stratégie du poisson de fond de l'Atlantique : suivi |
| 9 | La gestion du personnel scientifique et technologique : suivi |
| 10 | Affaires indiennes et du Nord Canada – Les modes de financement des Premières nations : suivi |


## Volume 2
## Septembre 1999


| Chapitre | |
|---|---|
| | Questions d'une importance particulière – 1999<br>Avant-propos et Points saillants |
| | **Chapitres 11 et 12** |
| 11 | Portefeuille de l'Agriculture – Les frais d'utilisation |
| 12 | Agriculture et Agroalimentaire Canada – Une nouvelle moisson : la propriété intellectuelle dans la recherche |
| 13 | Défense nationale – Les matières dangereuses : la gestion des risques pour les employés et l'environnement |
| | **Chapitres 14 et 15** |
| 14 | La surveillance de la santé nationale : les maladies et les blessures |
| 15 | La gestion d'une épidémie de toxi-infection alimentaire |

# Autres observations de vérification

## Chapitre 33 – Points saillants

**33.1** La *Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

**33.2** Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans les rapports. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes publics du Canada, des états financiers des sociétés d'État et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

**33.3** Le chapitre renferme habituellement des observations qui se rapportent aux dépenses ou aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers publics sans souci de l'économie.

**33.4** Cette année, nos observations portent sur les sujets suivants :

- des commissions secrètes/pots-de-vin à l'achat de carburant destiné aux véhicules militaires;
- le manque de systèmes de gestion et de contrôle financiers à CORCAN;
- l'excédent du Compte d'assurance-emploi.

**33.5** Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.

# Suivi des recommandations formulées dans des rapports antérieurs

## Chapitre 32 – Points saillants

**32.1** Dans la majorité de nos examens cette année, nous avons constaté une amélioration des efforts déployés par la direction pour prendre des mesures correctives positives et efficaces. Dans d'autres cas, nous nous inquiétons de la lenteur des progrès à régler les problèmes — pour une multitude de raisons, comme le soulignent les divers segments du présent chapitre.

**32.2** Le ministère des Finances a déployé des efforts considérables pour tenter d'aborder et de résoudre les problèmes que nous avions soulevés dans notre chapitre de 1997 au sujet du Programme de péréquation. Les changements promulgués en vertu du projet de loi C–65 ont eu un impact financier important sur le gouvernement fédéral et ont donné lieu au versement de paiements plus conformes aux principes du programme.

**32.3** Au ministère du Développement des ressources humaines, on a déployé des efforts considérables pour améliorer le service à la clientèle et gérer plus efficacement le programme d'invalidité du Régime de pensions du Canada. Le Ministère a donné suite à chacun des points mentionnés dans notre chapitre de 1996.

**32.4** La Commission des plaintes du public contre la GRC a pris des mesures pour répondre aux préoccupations exprimées lors de la précédente vérification. Celles-ci portaient sur la réduction des dossiers en attente et la rationalisation des procédures de révision. Toutefois, la Commission doit réduire davantage le nombre de dossiers en attente, élaborer une stratégie de communication, restructurer son système d'information et travailler avec la GRC pour atteindre l'objectif fixé concernant ses délais d'exécution.

**32.5** Lors de notre suivi sur les activités de promotion des exportations du Canada, nous avons constaté qu'Industrie Canada et Affaires étrangères et Commerce international Canada ont réalisé d'importants progrès au sujet de plusieurs questions opérationnelles. Toutefois, les progrès sont beaucoup moins manifestes dans les secteurs où nous avions recommandé des mesures pour renforcer la reddition de comptes à l'égard des résultats. Ainsi, Affaires étrangères et Commerce international Canada a avisé le Comité permanent des comptes publics qu'il proposerait un plan de facturation réaliste pour les services; cependant, les ministères ont décidé de ne pas mettre en oeuvre la facturation des services. Bien que les ministères soient d'avis que les mesures prises sont suffisantes, nous constatons avec appréhension que les progrès observés ne seront pas maintenus si nos autres recommandations ne sont pas mises en oeuvre.

**32.6** Dans notre suivi sur la gestion et le contrôle financier au ministère des Affaires étrangères et du Commerce international, nous avons noté un manque de célérité à mettre en oeuvre certaines de nos recommandations. Par contre, là où le Ministère a déployé des efforts particuliers, il a réalisé des améliorations importantes.

**32.7** Le Secrétariat du Conseil du Trésor a pris certaines mesures pour donner suite à nos recommandations sur le renouvellement des services gouvernementaux à l'aide des technologies de l'information. À l'égard des initiatives en matière de technologies de l'information à l'échelle du gouvernement, le Secrétariat a réalisé de bons progrès dans ses activités de surveillance et de mesure. Toutefois, les progrès au cours des trois dernières années ont été lents. Jusqu'à maintenant, les mesures prises pour donner suite entièrement à nos recommandations sont limitées.

**32.8** Un certain nombre de chapitres originaux ont été revus par le Comité permanent des comptes publics. Nous sommes d'avis que cette mesure a permis d'apporter les changements nécessaires.

**31.9** La vérification a étayé notre opinion selon laquelle les politiques administratives du gouvernement sur la gestion des projets d'investissement sont saines, mais qu'il reste des problèmes d'application.

**Le ministère des Affaires étrangères et du Commerce international est d'accord avec les recommandations formulées dans le chapitre et a énoncé un plan d'action qui tient compte de nos préoccupations.**

# Ministère des Affaires étrangères et du Commerce international

## L'exécution de projets d'investissement dans quatre missions

## Chapitre 31 – Points saillants

**31.1** Cette vérification a porté sur la façon dont le ministère des Affaires étrangères et du Commerce international a planifié et exécuté six projets d'investissement dans quatre missions, à savoir Séoul, New Delhi, Genève et Bangkok. Les dépenses en capital pour ces missions s'élevaient au total à quelque 75 millions de dollars, soit environ 20 p. 100 de celles prévues par le Ministère dans son Plan d'investissement à long terme, qui s'étale sur cinq ans.

**31.2** L'exécution de projets d'investissement à l'étranger comporte des risques, des difficultés et des défis importants qu'on ne retrouve pas dans les projets d'investissement au Canada.

**31.3** La vérification a confirmé que des raisons valables ont présidé à l'exécution de chacun des projets, et que les utilisateurs étaient généralement satisfaits de leurs nouveaux locaux. Dans l'ensemble, les budgets et les calendriers ont été respectés. Les contrats ont généralement été adjugés sur une base concurrentielle, et les ordres de modification, bien gérés. Nous avons par ailleurs noté plusieurs initiatives favorisant la protection de l'environnement.

**31.4** Nous avons cependant constaté des lacunes dans la planification préliminaire des projets. Les estimations indicatives étaient incomplètes et non fiables. Les estimations préliminaires des coûts de trois des projets étaient de 38 millions de dollars plus élevées que les estimations initiales, soit des hausses allant de 64 p. 100 à 153 p. 100. Dans un cas, une mauvaise estimation des coûts peut avoir entraîné une dépense improductive de 15 millions de dollars. Nous estimons que, pour les cinq dernières années, le coût de renonciation de ce paiement s'élève à 8 millions de dollars.

**31.5** Nous nous inquiétons également du manque de rigueur du Ministère en ce qui concerne l'analyse des options dans ses recommandations au Conseil du Trésor. Nous avons remarqué des cas où le Ministère a omis de documenter les résultats de son analyse de diverses options qui auraient pu permettre des économies d'au moins 7 millions de dollars sur 20 ans. Nous avons également noté des faiblesses dans la méthodologie utilisée par le Ministère pour justifier ses décisions en matière d'investissement, ainsi que l'absence de documentation à l'appui d'une option donnée.

**31.6** La qualité des rapports présentés au Conseil du Trésor pour expliquer les retards dans les projets et les augmentations de budgets doit être améliorée.

**31.7** En résumé, l'ampleur et la fréquence des hausses des estimations préliminaires des coûts ainsi que les autres problèmes constatés au cours de la vérification donnent à penser qu'il y a des faiblesses systémiques dans la planification ministérielle des projets d'investissement, et que celles-ci doivent être corrigées.

### Contexte et autres observations

**31.8** Le ministère des Affaires étrangères et du Commerce international gère un portefeuille imposant et diversifié de locaux à bureaux et de locaux d'habitation dans 160 emplacements dans plus de 100 pays. La valeur estimative de ces biens immobiliers de l'État à l'étranger oscille entre 1,5 milliard et 2 milliards de dollars. Chaque année, les loyers et les dépenses en capital totalisent quelque 110 millions et 60 millions de dollars respectivement. Le ministère des Affaires étrangères et du Commerce international ainsi que d'autres ministères utilisent ces installations pour exécuter leurs programmes.

- Le cadre actuel de règles, de politiques et de règlements liés à la passation des marchés est fondamentalement sain. Toutefois, il est manifeste que les ministères ne comprennent pas ce cadre ou choisissent, dans certains cas, de ne pas le suivre.

**Contexte et autres observations**

**30.4** En 1997, la valeur totale des contrats de 25 000 $ et plus pour toutes les catégories de services (y compris les services professionnels) s'établissait à 3,9 milliards de dollars, dont 1,34 milliard de dollars pour des marchés à fournisseur unique. Un PAC a été établi pour les marchés totalisant plus de la moitié de ce montant (830 millions de dollars) et le reste (510 millions de dollars) a été accordé sans que l'on émette d'avis public de l'intention du gouvernement d'attribuer un marché à fournisseur unique.

**30.5** Dans notre rapport de décembre 1998 (Chapitre 26 — La passation des marchés de services professionnels : certains contrats à fournisseur unique), nous faisions remarquer que la plupart des marchés figurant dans notre échantillon ne résisteraient pas à l'examen public. En mai 1999, le Comité permanent des comptes publics a avalisé les constatations de notre vérification et a exprimé son inquiétude au sujet des pratiques ministérielles se rapportant aux PAC.

**30.6** L'actuelle vérification avait pour objet d'évaluer le recours aux marchés à fournisseur unique et aux PAC pour l'obtention de services professionnels par la Défense nationale, Développement des ressources humaines Canada, l'Agence canadienne de développement international et Industrie Canada ainsi que par Travaux publics et Services gouvernementaux Canada en leur nom. Nous avons vérifié 522 PAC émis en 1998 par les quatre entités, ou en leur nom, et nous avons examiné en détail un échantillon de 50 de ces PAC.

**30.7** Nous avons fait des recommandations en vue d'encourager et de renforcer l'obligation de rendre compte des gestionnaires à qui ont été délégués les pouvoirs de passer des marchés dans les ministères et les organismes. En outre, afin de renforcer le processus de contestation des marchés, y compris les marchés pour lesquels on a recours aux PAC, nous avons recommandé que le gouvernement précise les droits de recours des entrepreneurs et établisse pour ceux-ci un mécanisme d'appel indépendant.

**Le Secrétariat du Conseil du Trésor a fait savoir que les politiques de passation des marchés du Conseil du Trésor s'appuient sur les valeurs et principes fondamentaux que sont la concurrence, l'accessibilité, l'égalité d'accès, la transparence, l'équité et l'optimisation des ressources pour les Canadiens. Le Secrétariat explique que le rôle du Conseil du Trésor consiste à établir ces politiques et que les ministères, en retour, doivent rendre compte de l'application des politiques à leur ministre et aux membres du Parlement. Le Secrétariat s'est engagé à mettre sur pied un programme de formation et d'attestation de compétences pour les spécialistes en approvisionnement et à instaurer un cadre de surveillance afin d'évaluer les activités liées à la passation des marchés. Alors que la politique du Conseil du Trésor encourage les mécanismes d'examen des marchés et les vérifications internes, le Secrétariat ne croit pas qu'il soit nécessaire d'établir une politique qui exige un mécanisme d'examen des marchés de services dans les ministères ou de recommander que les vérifications internes incluent dans leurs travaux les marchés de services conclus avec un fournisseur unique. Il ne croit pas non plus à la nécessité d'avoir un mécanisme d'appel indépendant pour les fournisseurs dans les cas de marchés de services qui ne sont pas du ressort du Tribunal canadien du commerce extérieur.**

# Les marchés de services professionnels conclus avec un fournisseur unique au moyen de préavis d'adjudication de contrat

## Chapitre 30 – Points saillants

**30.1** Dans le présent chapitre, nous examinons la pratique adoptée par le gouvernement d'attribuer des marchés de services professionnels à un fournisseur unique. Nous examinons aussi un mécanisme appelé le préavis d'adjudication de contrat (PAC), que les ministères utilisent de façon fort répandue pour annoncer leur intention d'attribuer un contrat à un certain fournisseur.

**30.2** La politique du gouvernement fédéral sur la passation des marchés repose essentiellement sur les principes d'accessibilité, de concurrence et d'équité en ce qui concerne les fournisseurs, ainsi que de transparence et de valeur optimale. Les règlements exigent que tous les marchés soient accordés en régime de concurrence, sauf en de rares exceptions définies de façon précise. Lorsqu'on a besoin de façon urgente du service visé par le contrat, lorsque la valeur est faible, lorsqu'il n'est pas dans l'intérêt public de lancer un appel d'offres (par exemple dans les cas de sécurité nationale) ou lorsqu'un seul fournisseur peut offrir le service, le contrat peut être attribué sans recourir à la concurrence; c'est ce qu'on appelle un marché à fournisseur unique. Près de 90 p. 100 des 50 marchés à fournisseur unique que nous avons examinés n'étaient pas visés par les exceptions ou ne présentaient pas de preuve suffisante à cet égard et auraient donc dû être attribués en régime de concurrence. Tout comme l'an dernier, lors de notre vérification des marchés de services professionnels conclus avec un fournisseur unique, nous en sommes venus à la conclusion que la plupart des marchés que nous avons vérifiés cette année ne résisteraient pas à l'examen public.

**30.3** Nous avons conclu que les PAC liés à ces marchés à fournisseur unique les rendent plus transparents, parce qu'ils sont annoncés publiquement (en comparaison de près de 40 p. 100 des marchés qui sont accordés à des fournisseurs uniques sans avis public) et parce qu'ils peuvent faire l'objet d'une contestation avant leur date d'expiration. Cependant, selon nous, le processus de contestation comporte des lacunes et décourage les fournisseurs éventuels de présenter une contestation. Seulement 35 des 522 contrats que nous avons examinés ont fait l'objet d'une contestation et seulement quatre de ces contestations ont été acceptées. Voici nos constatations :

- Les renseignements compris dans les PAC sont souvent vagues et ne font pas fréquemment l'objet de contestations. De plus, nombre de PAC ne sont pas affichés pendant les 15 jours recommandés. Il n'existe aucune politique définissant le processus de contestation, ni aucun critère pour juger de la validité d'une contestation. Les personnes qui jugent de la validité des contestations sont, pour la plupart, les mêmes qui ont décidé initialement que le marché ne devait pas être concurrentiel. Il n'existe aucun recours pour en appeler de leurs décisions à moins que le marché ne soit assujetti aux dispositions d'accords commerciaux, auquel cas il est possible d'en appeler auprès du Tribunal canadien du commerce extérieur. Contester un PAC, dans ces circonstances, exige de la part du fournisseur de l'argent et de la bonne volonté, un investissement que la plupart trouvent peu intéressant.

- Dans les 50 marchés à fournisseur unique que nous avons choisis pour un examen détaillé, nous avons constaté ce qui suit : la décision de passer un contrat, pour la plupart des cas, n'était pas examinée à fond; les besoins étaient souvent définis de façon peu précise; les prix n'étaient pas établis en tenant dûment compte de l'économie; et, souvent, les services à fournir n'étaient pas évalués au regard des exigences initiales du marché.

**29.8** Le gouvernement fédéral finance plusieurs initiatives afin de répondre à une large gamme de besoins en matière d'information. L'information est un instrument vital pour la répartition des ressources et la production de rapports sur le rendement du système de santé. Les activités dans ce domaine présentent d'importants défis que devront relever avec prudence toutes les parties s'intéressant à l'information nationale sur la santé. En outre, Santé Canada devrait agir sans tarder pour rendre compte du rendement et de l'efficacité de ses programmes, comme il s'y est engagé.

**29.9** Le gouvernement fédéral a créé le Fonds pour l'adaptation des services de santé afin d'aider les provinces et les territoires à lancer des projets pilotes qui leur permettront d'évaluer des moyens d'améliorer le système canadien de soins de santé. Il a aussi instauré le Programme de soutien à l'infostructure de la santé pour aider les organismes qui fournissent des services de santé à mettre à l'essai des technologies de l'information et à évaluer plus à fond l'utilisation qu'ils en font. Nous avons constaté des lacunes dans la gestion des deux initiatives qui, selon nous, pourraient compromettre l'utilité de ces outils conçus pour aider les planificateurs à prendre des décisions éclairées en matière de prestation des soins de santé.

**Les réponses de Santé Canada et du gouvernement fédéral à nos recommandations sont incluses dans le chapitre. Santé Canada a accepté de prendre des mesures correctives pour donner suite aux recommandations qui lui sont adressées. Le gouvernement fédéral s'engage à améliorer l'information en général mais il n'a pas répondu aux recommandations qui portent sur la présentation d'information précise.**

# L'appui fédéral à la prestation des soins de santé

## Chapitre 29 – Points saillants

**29.1** Le gouvernement fédéral n'est pas en mesure de déterminer le montant total qu'il verse pour les soins de santé. Les fonds fédéraux sont transférés globalement au titre du Transfert canadien en matière de santé et de programmes sociaux, ce qui donne aux provinces et aux territoires une marge de manoeuvre pour la répartition des fonds entre les soins de santé, l'enseignement postsecondaire, l'aide sociale et les services sociaux. Par conséquent, le Parlement et le grand public ne savent pas précisément à combien s'élève la contribution fédérale aux soins de santé.

**29.2** Santé Canada s'efforce d'appliquer la *Loi canadienne sur la santé* sans ingérence. Cette approche n'a pas permis de régler rapidement les cas de non-conformité et les différends concernant l'interprétation de la *Loi*. Une nouvelle approche, fondée sur les dispositions de l'Entente-cadre sur l'union sociale, prévoit un processus pour éviter ou régler les différends.

**29.3** Des lacunes dans les rapports annuels du Ministère au Parlement limitent leur utilité; le Parlement ne peut pas déterminer d'emblée dans quelle mesure chaque province ou territoire a satisfait aux conditions d'octroi et de versement de la *Loi canadienne sur la santé*. Lorsque le Ministère ne peut pas inclure cet élément d'information dans ses rapports, il devrait expliquer clairement la raison de cette absence.

**Contexte et autres observations**

**29.4** La prestation des soins de santé est une responsabilité essentiellement provinciale-territoriale. Toutefois, le gouvernement fédéral applique une loi importante dans ce domaine : la *Loi canadienne sur la santé*. Pour un grand nombre de Canadiens, cette loi prévoit un système de soins de santé qui aide à définir notre pays. La *Loi* présente les soins de santé en tant que droit fondamental et décrit les caractéristiques du système.

**29.5** La *Loi canadienne sur la santé* contient cinq conditions d'octroi, deux conditions de versement et des dispositions sur la surfacturation et les frais modérateurs. Pour qu'un gouvernement provincial ou territorial puisse toucher une pleine contribution pécuniaire du gouvernement fédéral, au titre du Transfert canadien en matière de santé et de programmes sociaux, il doit respecter toutes ces conditions et dispositions. Les cinq conditions d'octroi visent à permettre aux Canadiens de bénéficier d'un accès universel à un régime d'assurance-santé intégral dont la gestion est publique, peu importe leur lieu de résidence au Canada et même s'ils déménagent dans une autre province ou voyagent au Canada. Le régime les protège également lorsqu'ils voyagent à l'étranger, sous réserve de certaines restrictions. Selon les deux conditions de versement de la *Loi,* les provinces et les territoires sont tenus de communiquer au gouvernement fédéral les renseignements dont il peut normalement avoir besoin pour l'application de la *Loi*, et ils doivent reconnaître publiquement les transferts fédéraux.

**29.6** Le gouvernement fédéral fournit du financement aux provinces, aux territoires et à d'autres organisations pour les aider à s'acquitter de leur mandat relatif aux soins de santé et d'activités liées à la santé. Santé Canada est responsable de l'application de la *Loi canadienne sur la santé* et de l'exécution de programmes de santé et d'autres programmes dans des domaines connexes, dont les initiatives récentes visant à moderniser les soins de santé et à améliorer l'information et les technologies en matière de santé.

**29.7** Nous avons constaté que Santé Canada ne dispose pas de l'information nécessaire pour surveiller le respect de la *Loi* et rendre des comptes à ce sujet avec efficacité. La seule évaluation ministérielle effectuée sur ce plan avait une étendue limitée, et il a fallu cinq ans avant que ses résultats soient présentés au Parlement.

# Agence canadienne de développement international

## Les contrôles financiers des projets

## Chapitre 28 – Points saillants

**28.1** Les contrôles financiers de l'Agence canadienne de développement international (ACDI) permettent de surveiller et de contrôler le flux des fonds affectés aux projets et de suivre la situation financière des projets, autrement dit de savoir ce qui a été dépensé et ce qui reste à dépenser. Mais il arrive souvent que les rapports sur l'état d'avancement des projets ne font pas de comparaison entre ce qui a été accompli et ce qui était prévu. Il est donc difficile de déterminer le taux d'avancement des projets ou d'analyser les répercussions financières de tout écart par rapport aux progrès prévus, d'où le risque de devoir réduire la portée d'un projet ou de majorer son budget afin de pouvoir atteindre les objectifs visés.

**28.2** L'ACDI se sert des vérifications pour s'assurer que ses agents d'exécution se conforment aux conditions financières des contrats qu'elle a conclus avec eux. Selon ces vérifications, les dépenses des agents d'exécution sont en général largement conformes aux conditions des contrats. Dans les contrats que nous avons vérifiés, les montants pouvant constituer des redressements possibles pour des raisons de non-conformité aux conditions des contrats étaient relativement peu élevés — 32,2 millions de dollars sur quelque 932 millions de dollars. Mais les vérifications de l'ACDI ont aussi révélé des problèmes persistants de non-conformité aux conditions des contrats. L'ACDI a renoncé à des redressements monétaires indiqués comme des montants à rembourser par ses agents d'exécution par suite d'une non-conformité. Dans la plupart des cas, les motifs des décisions étaient accompagnés de pièces justificatives, mais à notre avis les raisons indiquées ne justifiaient pas toujours ces décisions. Durant la période de quatre années que nous avons examinée, le montant des sommes non recouvrées se situe selon nos calculs entre 12 et 13 millions de dollars.

**28.3** Nous croyons que la Direction générale de l'examen du rendement doit vérifier de façon plus active dans quelle mesure le système des contrôles financiers fonctionne tel que prévu.

**Contexte et autres observations**

**28.4** L'ACDI est chargée de gérer environ 1,8 milliard de dollars d'aide internationale du Canada. Un peu plus de 1 milliard de dollars représente les contributions à des tiers, appelés habituellement « agents d'exécution canadiens » (AEC), afin de réaliser des projets d'aide au développement. Les agents d'exécution peuvent être des institutions canadiennes ou des institutions des pays en développement, des gouvernements provinciaux et leurs organismes et agences, ou encore des entreprises privées canadiennes.

**28.5** L'ACDI a mis en place un certain nombre de contrôles financiers pour appuyer la gestion de ses projets d'aide. La pièce maîtresse de la gestion des projets est le contrat ou l'accord de contribution avec l'agent d'exécution canadien. L'Agence effectue des vérifications pour s'assurer que les AEC se conforment à ses contrats et accords de contribution. Dans la présente vérification, nous voulions savoir si les contrôles financiers exercés par l'ACDI sur les projets fonctionnaient comme prévu. Nous voulions également examiner les mesures prises par l'Agence pour donner suite aux résultats des vérifications de conformité portant sur ces projets.

**28.6** Même si nous avons constaté des problèmes de non-conformité aux contrats, nous avons également observé que, dans presque tous les contrats examinés, lorsque l'ACDI et un AEC s'entendent sur des montants à rembourser, l'Agence recouvre habituellement les montants dus. Les renseignements découlant des vérifications commandées par l'ACDI sont réunis et analysés, mais ne sont pas présentés à la haute direction des programmes pour qu'elle y donne suite.

**L'Agence est d'accord avec nos recommandations et a accepté de prendre des mesures pour répondre aux questions soulevées.**

**27.6** En 1995, lorsque le Ministère a lancé le programme des DMPS, il s'est fixé comme objectif d'économiser chaque année 200 millions de dollars d'ici 1999 et 350 millions d'ici 2001. Notre vérification a porté sur 14 de ses 40 projets DMPS en cours. Nous n'avons vérifié que les mesures gouvernementales, et nos observations et critiques ne visent en rien les tiers fournissant des services au gouvernement.

**Les réponses de la Défense nationale, du Secrétariat du Conseil du Trésor et de Travaux publics et Services gouvernementaux Canada sont incluses dans ce chapitre. La Défense nationale a pris des mesures pour donner suite à toutes nos recommandations. En particulier, le Ministère accorde une attention plus grande à la gestion des projets DMPS et fait en sorte que le personnel soit formé adéquatement.**

**En ce qui concerne nos préoccupations portant sur l'absence d'un cadre de politique gouvernementale adéquat pour établir un « partenariat » avec le secteur privé, le Secrétariat du Conseil du Trésor et Travaux publics et Services gouvernementaux Canada participent actuellement à une initiative interministérielle de réforme des approvisionnements qui inclura, entre autres choses, des travaux sur l'orientation des marchés de services pluriannuels importants.**

**La Défense nationale est d'avis que le programme d'entraînement en vol de l'OTAN au Canada est innovateur et offrira une formation de pilote de bonne qualité à un coût inférieur à celui du système de formation actuelle ou de toute autre option de formation envisageable dans un avenir prévisible.**

# Défense nationale

## Différents modes de prestation de services

## Chapitre 27 – Points saillants

**27.1** Le programme des Différents modes de prestation de services (DMPS) de la Défense nationale – qui vise à trouver des façons nouvelles et meilleures d'assurer les services de l'État – en est encore à ses débuts, et ses progrès ont été plus lents que prévu. Selon des estimations ministérielles non confirmées, les économies se chiffrent actuellement à quelque 68 millions de dollars. Étant donné que le Ministère dépense chaque année 3,5 milliards de dollars en services de soutien, la possibilité de réaliser d'autres économies demeure grande. En 1996, il prévoyait que les économies annuelles atteindraient 200 millions de dollars d'ici 1999. Toutefois, s'appuyant sur les résultats obtenus à ce jour, le Ministère a ramené cette prévision à 175 millions de dollars par année d'ici 2004.

**27.2** Bon nombre des analyses de rentabilisation liées aux 14 projets que nous avons vérifiés avaient été mal effectuées. Les options n'étaient pas toujours évaluées de manière satisfaisante, et l'option choisie n'était pas nécessairement la meilleure. Le personnel ne semblait pas posséder les compétences nécessaires pour entreprendre les analyses. Le Ministère a pris des mesures pour améliorer la gestion de projets DMPS plus récents et croit avoir comblé les lacunes antérieures.

**27.3** Le gouvernement n'a pas de cadre d'action adéquat pour le « partenariat » avec le secteur privé et l'impartition de vastes programmes de services. Plus particulièrement, dans le cas du contrat de 2,8 milliards de dollars relatif à l'entraînement en vol de l'OTAN au Canada :

- il n'y a pas eu d'appel d'offres, contrairement à la politique et aux règlements gouvernementaux régissant la passation des contrats, renonçant ainsi aux avantages de la concurrence des prix;
- la politique et les lignes directrices de Travaux publics et Services gouvernementaux Canada sur la marge bénéficiaire pour les contrats à fournisseur unique n'ont pas été suivies, et les marges bénéficiaires n'ont pas fait l'objet d'analyses adéquates.

**27.4** Des dispositions contractuelles rigides ont imposé des paiements à l'égard d'une capacité d'entraînement inutilisée. Par exemple :

- Le Centre d'instruction et de soutien de la Milice Meaford est exploité en vertu d'un contrat quinquennal à forfait d'une valeur de 40 millions de dollars. Or, seulement 43 p. 100 de sa capacité a été utilisée en 1998.
- L'École canadienne d'aviation de Portage la Prairie offre un programme d'entraînement au pilotage en vertu d'un contrat de 165 millions de dollars, programme qui a été largement sous-utilisé au cours des six premières années.

**Contexte et autres observations**

**27.5** Selon le ministère de la Défense nationale, le programme des DMPS a pour but de fournir un cadre permettant aux gestionnaires d'optimiser les ressources financières en ce qui a trait aux activités secondaires. Grâce à ce programme, il espère trouver et employer les moyens les plus rentables d'assurer les services de soutien, lesquels représentent environ le tiers de son budget de 10,3 milliards de dollars. Nous avons constaté que la compression des effectifs et la restructuration avaient déjà entraîné des économies à l'égard d'un grand nombre des activités visées par le programme des DMPS.

l'*Énoncé d'éthique de la Défense*, qui est constitué de principes (respect, service et obéissance à l'autorité légale) et d'obligations (intégrité, loyauté, honnêteté, courage, responsabilité et équité). Le programme est censé être mis en oeuvre du sommet vers la base par les chefs de groupe au Quartier général et par les chefs d'état-major des armées (Forces maritimes, Armée de terre et Force aérienne).

**26.7** La stratégie du Ministère, pour la mise en oeuvre du Programme d'éthique, repose, entre autres, sur les points suivants : une sensibilisation accrue du milieu à cette problématique, l'offre aux militaires et aux civils du Ministère de cours d'éthique, l'examen et la discussion des règles d'éthique, ainsi que la recherche de solutions aux problèmes d'éthique. Cette stratégie comprend aussi l'évaluation des secteurs à risque en vue de cerner des problèmes d'éthique particuliers. L'un des objectifs de notre vérification consistait à déterminer dans quelle mesure le Programme d'éthique de la Défense a permis de traiter les problèmes repérés jusqu'à maintenant.

**26.8** En plus d'utiliser le Programme d'éthique de la Défense, le Ministère continue à s'appuyer sur des mesures de contrôle telles que la vérification interne, la police militaire et les contrôles de la conformité exercés par la direction. Nous avons également examiné ces secteurs. En outre, nous avons évalué la mesure dans laquelle la Défense nationale répond de façon appropriée aux plaintes portant sur la mauvaise utilisation de ressources ou sur des cas d'inconduite.

**Le Ministère a réagi positivement à nos recommandations et a accepté d'apporter plusieurs améliorations. Il a déclaré qu'il préciserait de nouveau les responsabilités qui incombent aux gestionnaires pour la mise en place du Programme d'éthique de la Défense et qu'il les aiderait à dresser des plans de mise en oeuvre. Le Ministère a accepté de renforcer l'analyse des risques nécessaire pour guider la vérification de chacune des armées. Il compte analyser les opérations au moyen d'un système d'analyse automatisée des données pour déceler les irrégularités. Enfin, le Ministère a déclaré qu'il effectuait maintenant le suivi des réponses aux allégations d'abus et qu'il comptait avoir terminé la majorité des évaluations d'ici un an.**

# Défense nationale

## La conduite appropriée des affaires publiques

## Chapitre 26 – Points saillants

**26.1** La Défense nationale a pris des mesures constructives dans chacun des secteurs que nous avons examinés au cours de la présente vérification : soutien actif au respect des normes d'éthique, contrôle et vérification internes et suivi des plaintes. Cependant, il y a place pour d'autres améliorations dans chaque secteur.

**26.2** Le Programme d'éthique de la Défense, lancé par le Ministère en 1994 à titre de réponse clé aux problèmes d'éthique vécus au cours des dernières années, n'a pas encore été entièrement mis en oeuvre dans l'ensemble du Ministère et des Forces canadiennes. La conception centrale du programme est terminée, des volets éthiques ont été ajoutés à certains cours, et la formation en matière d'éthique à l'intention des nouvelles recrues progresse à un rythme satisfaisant, mais d'autres éléments essentiels sont toujours absents. Au sein des trois armées, il y a un manque d'engagement à l'égard du programme, et le degré d'intégration de celui-ci dans les systèmes de gestion du personnel varie beaucoup. Le Ministère doit aller de l'avant et faire en sorte que le programme devienne entièrement opérationnel dès que possible. À cette fin, il lui faut élaborer un plan d'action comportant des indications précises quant aux dates d'échéance et aux résultats attendus.

**26.3** Nous avons aussi relevé des points faibles dans les systèmes de contrôle du Ministère, notamment les contrôles internes, la vérification interne et la police militaire. Il est évident que, dans certains secteurs, les contrôles s'appliquant aux ressources financières et matérielles se sont relâchés. Bien que le groupe central de vérification interne ait récemment effectué plusieurs études sur les risques liés à la délégation des pouvoirs de gestion des ressources, nous craignons que la réduction des ressources de vérification interne n'ait atteint un seuil inquiétant et que ne soit insuffisante l'analyse des risques servant à la délimitation des travaux de vérification de conformité devant permettre de dépister les cas de fraude ou d'abus ou d'éviter leur occurrence. Quelques commandants locaux ne comprennent pas bien le nouveau rôle du Grand prévôt des Forces canadiennes pour ce qui est d'établir la politique et les normes s'appliquant à la police militaire. Cette situation a entraîné des cas d'ingérence.

**26.4** Nous avons examiné comment le Ministère a réagi à des plaintes adressées à la haute direction au Quartier général de la Défense nationale. Les allégations d'abus de ressources, tels que l'amélioration non autorisée de résidences officielles et le détournement de biens de l'État, n'ont pas toutes été traitées de façon appropriée. Les mesures correctives se sont révélées incohérentes, et l'on met du temps à redresser la situation. Nous avons recommandé que le Ministère assure le suivi de toutes les plaintes formulées et veille à ce qu'elles soient réglées promptement.

### Contexte et autres observations

**26.5** Ces dernières années, la Défense nationale a beaucoup fait parler d'elle en raison de plusieurs cas d'écarts de conduite au niveau de la direction et des chefs. Il y a eu entre autres les événements fortement médiatisés qui ont fait l'objet de l'enquête sur la Somalie ainsi que d'autres cas liés à une mauvaise utilisation des ressources. Au cours des cinq dernières années, le Ministère a aussi subi d'importants changements : son budget a été réduit de près de 25 p. 100, un échelon complet de la pyramide administrative a été éliminé, et la gestion a été considérablement décentralisée. Ces changements ont engendré d'importants défis en ce qui concerne le maintien des contrôles de gestion et la réforme du Ministère.

**26.6** En réponse aux problèmes cernés, la haute direction du Ministère a ordonné l'élaboration du Programme d'éthique de la Défense en février 1994. Le programme conçu a été approuvé en décembre 1997. Il se fonde sur

**25.9** Dans les plans d'urgence des ministères que nous avons examinés, nous avons constaté que certains éléments clés n'étaient pas complets ou qu'ils n'étaient pas assez précis. En particulier, les plans des essais étaient faibles et peu d'organisations prévoyaient compléter l'exercice de validation du Groupe de planification nationale de contingence par d'autres essais de leurs procédures d'urgence.

**25.10** Nous avons cerné plusieurs questions qui nécessiteront une intervention au-delà de 1999 et nous avons recommandé au gouvernement de prendre ou d'envisager certaines mesures, entre autres : se conformer aux conventions d'affichage de la date du gouvernement; mettre à jour les bases d'information de valeur conçues pour les projets de l'an 2000; détecter les écueils de l'an 2000 après janvier 2000.

**Le présent chapitre comprend les réponses du gouvernement à nos recommandations. Le gouvernement souscrit à celles-ci et dans ses réponses, il décrit les mesures qu'il prendra pour y donner suite.**

# La préparation à l'an 2000

## L'étape finale

## Chapitre 25 – Points saillants

**25.1** Le gouvernement a fait d'importants progrès dans la préparation de ses systèmes à l'appui des fonctions essentielles à sa mission en vue de régler le problème du passage à l'an 2000. Le Secrétariat du Conseil du Trésor a signalé que les travaux portant sur les systèmes essentiels à la mission du gouvernement étaient achevés à 99 p. 100 en juillet 1999. Notre vérification confirme le taux d'achèvement global de 99 p. 100 des travaux. Selon ses plans, tous les systèmes essentiels devraient être prêts pour l'an 2000 au plus tard le 31 octobre 1999, soit deux mois avant le début du nouveau millénaire.

**25.2** Santé Canada et la Commission de contrôle de l'énergie atomique ont établi les exigences pour l'an 2000 s'appliquant aux titulaires d'homologation à l'égard d'instruments médicaux ainsi qu'aux détenteurs de permis d'exploitation de centrales nucléaires et d'appareils à rayonnement. Un suivi des instruments médicaux et des appareils à rayonnement est nécessaire, mais les titulaires de permis d'exploitation de centrale nucléaire ont satisfait aux exigences.

**25.3** Des mesures sont actuellement mises en place pour les contingences et les situations d'urgence nationales. Bien que les procédures d'urgence aient été largement définies, la planification des mesures d'urgence dans les ministères n'est pas encore au point.

**25.4** Nous avons conclu que le gouvernement doit demeurer vigilant pour réduire le plus possible toute interruption en l'an 2000.

**Contexte et autres observations**

**25.5** Le problème du passage à l'an 2000, ou le problème du code à deux chiffres, est une source de préoccupation pour l'industrie et les gouvernements partout dans le monde. On estime que les coûts associés au règlement de ce problème sont aussi élevés que 800 milliards de dollars américains pour l'ensemble du globe. En août 1999, le gouvernement fédéral avait évalué les coûts de ses projets de l'an 2000 à 2,2 milliards de dollars. Selon le Secrétariat du Conseil du Trésor, les coûts totaux pourraient atteindre 2,5 milliards de dollars.

**25.6** En 1997, nous avons vérifié l'état de préparation à l'an 2000 du gouvernement, et de nouveau en 1998. Notre rapport de 1997 faisait mention de nos préoccupations quant à la lenteur des travaux de préparation à l'an 2000; en 1998, nous étions toujours très préoccupés du fait que certains services essentiels pourraient être interrompus en 2000. La plupart de nos recommandations ont été acceptées et mises en oeuvre par le gouvernement.

**25.7** En 1999, à la suite de nos travaux dans les divers ministères et organismes, nous avons communiqué nos constatations à la direction et suggéré des mesures. Cette étape supplémentaire avait pour objet de donner aux ministères et aux organismes plus de temps pour agir.

**25.8** Nous avons vérifié l'information sur les progrès des travaux de préparation à l'an 2000 du gouvernement telle que communiquée par le Secrétariat, en la comparant à l'information contenue dans ses dossiers justificatifs. Nous avons aussi examiné les documents ministériels relatifs à sept fonctions essentielles à la mission du gouvernement dans six organisations. Notre vérification n'a pas révélé de différences importantes avec l'information communiquée par le Secrétariat.

# Le Fonds canadien d'adaptation et de développement rural

## Un exemple de régie en partenariat

## Chapitre 24 – Points saillants

**24.1** Le Fonds canadien d'adaptation et de développement rural (FCADR) est un nouveau mécanisme de régie conçu par Agriculture et Agroalimentaire Canada pour aider les agriculteurs, les producteurs et les transformateurs à s'adapter aux nouvelles réalités commerciales dans le secteur agricole. Aux termes du mécanisme, c'est en grande partie l'industrie agricole qui sélectionne les projets d'adaptation du secteur à financer.

**24.2** Nous avons constaté qu'on avait réussi à établir un juste équilibre entre la latitude nécessaire aux conseils de l'industrie pour prendre les meilleures décisions et le respect des fins d'intérêt public des fonds. En mettant au point ce mécanisme, le Ministère a établi un certain nombre de bonnes pratiques. Cependant, nous avons aussi constaté que des améliorations doivent être apportées dans certains secteurs.

**24.3** De concert avec le Ministère, nous avons élaboré un instrument pour évaluer les capacités des conseils d'adaptation. Les résultats obtenus par les projets pilotes suggèrent que les conseils du FCADR possèdent pour la plupart les compétences requises. Nous avons déterminé que cet instrument pourrait servir à évaluer les capacités des parties contribuant à ce nouveau mécanisme de régie et peut-être aussi à d'autres mécanismes.

**Le Ministère accepte nos constatations et s'est engagé à donner suite à nos recommandations; il n'a fourni toutefois aucun détail à ce sujet.**

**23.8** Le gouvernement doit veiller à ce que les ministères et les organismes qui mettent en place les nouveaux mécanismes se penchent sur les questions primordiales suivantes : rapports crédibles au Parlement et au public, mécanismes redditionnels efficaces, transparence adéquate et protection de l'intérêt public. Le leadership et l'engagement du Secrétariat du Conseil du Trésor sont nécessaires pour élaborer un cadre de régie et surveiller son utilisation étant donné que les dispositions particulières appropriées pour traiter ces questions varieront selon les cas.

**23.9** Il faut établir un équilibre entre, d'une part, l'indépendance requise pour assurer le fonctionnement efficient de ces mécanismes en vue d'obtenir des résultats et, d'autre part, la nécessité d'avoir une reddition de comptes satisfaisante. Nous croyons qu'une reddition de comptes appropriée au Parlement et au public est compatible avec l'indépendance face au gouvernement pour ce qui est des questions opérationnelles.

**La réponse du Secrétariat du Conseil du Trésor se trouve à la fin du présent chapitre. Le Secrétariat est d'accord avec les éléments du cadre de régie que nous proposons, insiste sur le fait qu'ils doivent s'appliquer avec souplesse et reconnaît qu'il faut apporter des améliorations dans certains secteurs. Le Secrétariat précise les nombreuses mesures qu'il prend pour régler les questions abordées dans ce chapitre.**

# La régie en partenariat

## La reddition de comptes menacée

## Chapitre 23 – Points saillants

**23.1** Nous avons relevé 77 nouveaux mécanismes de régie au sein de l'administration fédérale, pour lesquels on a dépensé plus de cinq milliards de dollars par an. Les investissements fédéraux dans certains mécanismes sont assez faibles (par exemple, le Programme d'économie d'énergie dans l'industrie canadienne), mais d'autres comportent des engagements fédéraux de milliards de dollars (par exemple, le programme Travaux d'infrastructure Canada).

**23.2** Aux termes de ces mécanismes, le gouvernement fédéral s'assure de la participation de partenaires externes à la planification, à la conception et à l'atteinte des objectifs fédéraux. Ces partenaires, qui remplacent les employés fédéraux, les entrepreneurs ou les agents dans l'exécution des programmes et la prestation des services, ne sont pas responsables envers les ministres et le Parlement.

**23.3** Ces initiatives, si elles sont bien mises en oeuvre, pourraient améliorer l'exécution des programmes et la prestation des services fédéraux. Cependant, bon nombre des nouveaux mécanismes de régie que nous avons examinés ont été mis en place d'une façon ponctuelle, qui menace inutilement la reddition de comptes au Parlement. Aux termes de ces mécanismes, le Parlement dispose de moyens limités — et dans certains cas il ne dispose d'aucun moyen — de tenir le gouvernement responsable des fonctions fédérales remplies ou des objectifs fédéraux atteints. Bien que la bonne volonté et la confiance soient indispensables à l'application de tout mécanisme, on ne peut se fier uniquement à celles-ci pour assurer adéquatement le succès à long terme.

**23.4** Pour ces nouveaux mécanismes, le gouvernement n'a pas de cadre de régie uniforme et généralement reconnu qui protège les principes essentiels de notre système parlementaire. Il n'a pas non plus cerné ni communiqué adéquatement les leçons tirées de ces nouvelles approches. À notre avis, le gouvernement fédéral doit toujours rendre compte au Parlement de l'utilisation des impôts, des biens et des pouvoirs fédéraux, peu importe les outils qu'il utilise ou les mécanismes qu'il met en place avec ses partenaires pour atteindre ses objectifs d'intérêt public.

**23.5** Il faut consulter le Parlement et le public pour l'établissement d'un cadre de régie convenable qui conciliera les nouveaux mécanismes de régie et la reddition de comptes au Parlement pour l'exercice des fonctions fédérales par des parties autres que le gouvernement fédéral.

**Contexte et autres observations**

**23.6** Au cours des dix dernières années, le gouvernement a accru considérablement le recours à des partenaires externes dans l'application de mécanismes novateurs pour les programmes et les services destinés aux Canadiens. Dans certains cas, ces mécanismes ont donné lieu à la répartition des pouvoirs fédéraux en faisant participer des parties de l'extérieur au processus de régie des Canadiens dans d'importants secteurs d'intérêt public qui relevaient auparavant de la seule compétence du gouvernement fédéral.

**23.7** Les nouveaux mécanismes de régie que nous avons examinés font appel à divers modes pour l'exécution des programmes et la prestation des services. Les dispositions visant à assurer une saine régie et la reddition de comptes au Parlement et au public sont très inégales : nous avons constaté que la communication de l'information sur le rendement était limitée, que de nombreux mécanismes redditionnels étaient faibles et qu'on ne prêtait pas assez d'attention à la transparence et à la protection de l'intérêt public. Il faut remédier à ces lacunes.

# Les caractéristiques des organismes de recherche bien gérés

## Chapitre 22 – Points saillants

**22.1** Nous avons constaté que les organismes de recherche bien gérés possédaient tous certaines caractéristiques que nous avons regroupées en quatre thèmes.

- Ces organismes **mettent l'accent sur les personnes**, recrutant, formant et retenant la bonne combinaison de personnes dans un environnement positif et favorable.
- Ils font preuve de **leadership**, se laissant guider par les besoins de ceux qui comptent sur les résultats de leurs recherches, faisant partager leur vision, leurs valeurs et leurs buts, et entreprenant la bonne recherche, au bon moment et au bon niveau d'investissement.
- Ils **gèrent la recherche** de manière à assurer l'excellence et les résultats, à tirer parti des ressources et à saisir et à conserver les connaissances acquises.
- Ils visent un **rendement organisationnel** élevé en étant largement connus et respectés et en répondant aux besoins de ceux qui dépendent des résultats de leurs recherches.

**22.2** Nous avons élaboré les caractéristiques dans le cadre de recherches et de consultations avec des gestionnaires de recherche du Canada et des États-Unis. Ces caractéristiques ne sont pas une recette pour l'action, mais plutôt des énoncés sur l'orientation que la gestion devrait prendre. Elles sont assorties d'exemples de pratiques utilisées par les organismes que nous avons visités.

**22.3** Les caractéristiques décrivent des résultats idéaux, qui ne sont donc pas atteignables, mais elles sont énoncées de façon à ce que les progrès par rapport à l'idéal soient observables et mesurables. À notre avis, la mesure dans laquelle un organisme démontre une caractéristique est une indication de la qualité de sa gestion.

**Contexte et autres observations**

**22.4** Le gouvernement fédéral a investi près de 5,5 milliards de dollars dans les sciences et la technologie en 1998–1999. De ce montant, près de 3,2 milliards de dollars ont été dépensés par des organismes de recherche fédéraux, le reste ayant été versé à des organismes de l'extérieur pour des activités de recherche-développement et des activités scientifiques connexes.

**22.5** Dans *Les sciences et la technologie à l'aube du XXI^e siècle : la stratégie fédérale* (1996), le gouvernement fédéral reconnaît la nécessité de mieux gérer les activités scientifiques et technologiques. Il présente de nouveaux mécanismes de régie et une série de principes directeurs généraux destinés à améliorer la gestion des sciences et de la technologie, tant dans l'ensemble des ministères et organismes qu'à l'intérieur de ceux-ci. Notre travail complète et renforce cette stratégie en décrivant ce à quoi devrait ressembler une saine gestion dans un organisme de recherche.

**21.6** Le Comité permanent des comptes publics du Parlement a tenu une audience sur le chapitre 18 en octobre 1998. Le Comité a invité le Secrétariat du Conseil du Trésor à modifier, « le plus rapidement et diligemment possible », le système d'octroi des crédits de manière à ce qu'il mette l'accent sur les ressources engagées pour obtenir des résultats plutôt que simplement sur les ressources acquises. Nous avons considéré ce changement du système d'octroi des crédits comme une étape nécessaire pour inciter les gestionnaires des ministères à exiger de l'information préparée selon la méthode de la comptabilité d'exercice intégrale pour améliorer la gestion et la prise de décisions quotidienne. Le Comité a aussi invité le Secrétariat à surveiller l'état de mise en oeuvre de la SIF dans tous les ministères et organismes et à fournir au Parlement des estimations plus précises du coût total de la mise en oeuvre. Les coûts estimatifs de la SIF demeurent toujours en grande partie inconnus ou indéterminés; seuls onze des 24 ministères que nous avons étudiés ont préparé des estimations partielles ou complètes des coûts.

**21.7** L'un des aspects essentiels de la mise en oeuvre réussie d'une initiative de l'envergure de la SIF est le changement de philosophie de gestion nécessaire pour que l'on puisse tirer pleinement parti de tous les avantages qu'elle doit procurer grâce à une prise de décisions plus éclairée. L'importance de la gestion du changement est ressortie clairement de l'expérience de l'industrie et d'autres administrations. L'un des principaux défis que le Secrétariat aura à relever sera de guider les ministères et de leur faire connaître les leçons apprises sur cette importante question.

**Les réponses du Secrétariat du Conseil du Trésor à nos recommandations sont incluses dans le chapitre. Conformément à la récente décision d'accentuer l'importance de la mise en oeuvre de la Stratégie, le Secrétariat compte surveiller les progrès des ministères et tenir compte de nos recommandations.**

# La Stratégie d'information financière

## L'état de préparation des ministères

## Chapitre 21 – Points saillants

**21.1** Nous avons constaté que la plupart des ministères commençaient à peine à s'intéresser à la Stratégie d'information financière (SIF), bien que la date fixée pour la mise en oeuvre de la SIF soit le 1er avril 2001, c'est-à-dire dans moins de deux ans. Au moment de notre vérification, la plupart des ministères avaient mis en oeuvre de nouveaux systèmes financiers, mais il leur restait encore beaucoup de travail à faire pour préparer ces systèmes financiers et mettre en oeuvre les politiques de comptabilité d'exercice nécessaires pour répondre aux exigences de la SIF. Les stratégies visant à préparer les gestionnaires à utiliser l'information fournie par la SIF pour renforcer la prise de décisions ne sont pas encore en place. Nous craignons également que la SIF ne soit pas jugée prioritaire par les cadres supérieurs.

**21.2** À notre avis, le Secrétariat du Conseil du Trésor, qui assure la gestion globale de la SIF, devra insuffler un leadership plus vigoureux, en tirant parti de quelques-unes des leçons apprises lorsqu'il s'est attaqué au problème du passage à l'an 2000. Plus particulièrement, le Bureau du projet SIF devra mettre en place et tenir à jour un plan de mise en oeuvre global et actuel, faire appel à des compétences appropriées en gestion des risques, surveiller la mise en oeuvre par les ministères et intervenir de façon constructive si des problèmes se présentent. De plus, il devra fournir aux ministères les politiques et les manuels comptables requis, que l'on est présentement à élaborer, et les aider à comprendre comment utiliser la SIF dans la gestion quotidienne.

**21.3** Travaux publics et Services gouvernementaux Canada (TPSGC) a mené à bien l'élaboration et la mise en oeuvre des nouveaux systèmes centraux. TPSGC et ses principaux partenaires, le Secrétariat du Conseil du Trésor et Revenu Canada, ont travaillé ensemble pour mener à bien l'essai pilote préproduction de ces nouveaux systèmes. Nous avons constaté que le Ministère et ses partenaires avaient établi un plan détaillé et obtenu des compétences en gestion des risques, surveillé les progrès réalisés, étaient intervenus au besoin et avaient respecté les principales échéances fixées.

### Contexte et autres observations

**21.4** Comme nous l'avons signalé l'an dernier, dans notre premier rapport sur la SIF (chapitre 18 du Rapport de septembre 1998), le gouvernement apporte des changements d'envergure au type d'information financière fournie aux décideurs. Dans le cadre de la Stratégie d'information financière, de nouveaux systèmes financiers sont mis en place dans toute l'administration fédérale. Mais la SIF va bien au-delà du renouvellement des vieux systèmes financiers. La Stratégie vise également à aider le gouvernement à améliorer considérablement la gestion des secteurs d'activités et la reddition de comptes au Parlement. Pour y parvenir, le gouvernement produira de l'information selon la méthode de la comptabilité d'exercice intégrale, utilisée dans le secteur privé, qui servira à la prise de décisions par les gestionnaires des ministères. Le Bureau du vérificateur général continue de souscrire entièrement aux objectifs énoncés pour la SIF.

**21.5** De nombreuses parties réclamaient des améliorations à l'information financière pour appuyer la prise de décisions depuis la Commission royale d'enquête sur l'organisation du gouvernement (Commission Glassco) en 1962. La SIF a été lancée officiellement en 1989 et, après plusieurs faux départs, le projet a été revitalisé en 1995. Le gouvernement s'est fixé comme objectif de terminer la mise en oeuvre de la SIF en avril 2001. Nous avons constaté, au cours de notre recherche, que la réforme de la gestion financière d'autres administrations, comme l'Alberta, le Royaume-Uni, l'Australie et la Nouvelle-Zélande, progressait plus rapidement.

**20.6** Le Ministère aura besoin de temps pour s'adapter au nouveau régime de gestion. Pendant cette période, les pêches feront l'objet de fermetures pour permettre le rétablissement des stocks. On ne peut s'attendre à des améliorations rapides en raison du cycle de vie du saumon qui s'étend sur cinq ans ou plus; par ailleurs, les saumons ont besoin de temps pour s'adapter aux changements dans leurs habitats d'eau douce et marins. Enfin, la durabilité future des pêches dépendra non seulement de la capacité du Ministère d'appliquer sa nouvelle politique, mais aussi du succès qu'il remportera en s'assurant le concours des intervenants et du gouvernement provincial dans la répartition de la charge de travail.

**Le chapitre présente les réponses du ministère des Pêches et des Océans à nos recommandations. Le Ministère accepte nos treize recommandations et signale que des projets sont en cours dans plusieurs secteurs.**

# Pêches et Océans

# Le saumon du Pacifique : la durabilité des pêches

## Chapitre 20 – Points saillants

**20.1** Les pêches du saumon du Pacifique éprouvent de graves problèmes. L'ensemble des prises a fléchi, mais les captures commerciales ont chuté. La durabilité à long terme des pêches est en danger parce que des facteurs comme la surpêche, la perte d'habitats et le fléchissement de la productivité de l'océan ont érodé la ressource. Il en résulte une crise de gestion qui assombrit l'avenir des pêches du saumon. Ces pêches se poursuivront, mais des mesures de contrôle plus strictes seront nécessaires à court terme pour que le saumon survive au profit des générations futures.

**20.2** Le défi que doivent relever les gestionnaires du ministère des Pêches et des Océans consiste à conserver les stocks actuels et à rétablir ceux qui sont faibles, tout en maintenant la viabilité des pêches. Il faudra que le Ministère adapte son régime de gestion à de nouvelles réalités et obtienne l'assentiment et l'appui des intervenants s'il veut réussir. Il s'agira de tâches difficiles.

**20.3** Voici ce que le Ministère doit faire maintenant :

- déterminer les besoins d'information et les priorités en ce domaine;
- revoir le processus de consultation et déterminer les améliorations nécessaires;
- mettre en oeuvre des plans de gestion intégrée des pêches;
- terminer de façon prioritaire la réduction de la flottille;
- créer une commission d'allocation indépendante;
- établir de meilleures relations de travail avec la province de la Colombie-Britannique en ce qui concerne les enjeux liés aux pêches.

**Contexte et autres observations**

**20.4** Le Ministère a déjà pris les premières mesures permettant de relever ces défis. Il a déclaré que la conservation était sont principal objectif pour protéger les stocks de saumon actuels et pour rétablir la ressource. En 1998, il a annoncé *Une nouvelle orientation pour les pêches du saumon du Pacifique au Canada* pour baliser ses futures mesures de gestion. C'est en s'appuyant sur cette politique que le bureau régional du Ministère a dressé le Plan stratégique de 1998–2001 qu'il met actuellement en oeuvre.

**20.5** En plus de la gestion des grands stocks convoités surtout par la pêche commerciale, le bureau régional a commencé à s'intéresser davantage à la conservation de plus petits stocks qui sont importants pour les pêches autochtones et récréatives. Il a adopté une approche de gestion des pêches fondée sur la conservation et il met à l'essai des méthodes et des engins de pêche sélective, en plus de mettre en oeuvre de nouveaux programmes spéciaux comme la réduction et la restructuration de la flottille. Toutefois, les objectifs de la politique exigent que l'on s'occupe d'autres domaines. Il s'agit surtout d'améliorer les bases de données régionales et la gestion de l'information pour permettre au bureau régional d'assurer une gestion du saumon du Pacifique stock par stock. Il faut aussi résoudre les problèmes liés à la consultation afin d'améliorer les rapports avec les intervenants et de créer éventuellement des partenariats pour partager les responsabilités associées à la gestion et compenser les coûts.

ce qui signifie que le pays n'est pas suffisamment innovateur comparativement à ses principaux partenaires commerciaux. Ces rapports indiquent que le faible rendement du Canada en matière d'innovation est au coeur de problèmes de rendement économique plus importants, notamment une productivité moindre que celle des États-Unis.

**19.6** Notre examen de la question révèle cependant que les causes et les effets de ce fossé ne sont pas manifestes. Il est certain que l'innovation est un facteur important de la croissance économique, mais l'évaluation du rendement réel en matière d'innovation présente de multiples défis. Bien qu'il demeure difficile d'effectuer une évaluation complète, il semble de plus en plus que les principaux concurrents du Canada le devancent à maints égards. Il apparaît qu'un meilleur rendement en matière d'innovation ne repose pas uniquement sur un accroissement des investissements en recherche-développement (R–D); il requiert le soutien des activités de R–D nécessaires à l'intégration des nouvelles technologies à l'économie. Il semble aussi que les investissements en R–D ne constituent ni le seul facteur déterminant du taux de croissance de la productivité de l'économie canadienne, ni même le plus important.

**19.7** Promouvoir l'innovation dans l'économie est l'un des principaux objectifs du portefeuille de l'Industrie, qui se compose d'entités dont le ministre de l'Industrie est responsable. Les programmes que nous avons examinés portent sur le soutien de la R–D et accaparent la majorité des subventions et des contributions que le portefeuille consacre à l'atteinte de cet objectif.

- Le Conseil national de recherches du Canada est chargé du Programme d'aide à la recherche industrielle, qui permet aux petites et moyennes entreprises de mettre au point et d'exploiter des technologies (120 millions de dollars en 1998–1999).

- Le Conseil de recherches en sciences naturelles et en génie du Canada est chargé du Programme de partenariats de recherche. Le Programme, dont l'objectif est de favoriser l'interaction et le partenariat entre la recherche universitaire et d'autres secteurs afin de créer un nouveau savoir et une nouvelle expertise, et de transférer ces connaissances et ce savoir-faire à des organisations canadiennes (95 millions de dollars en 1998–1999). Le Conseil est également chargé du programme des Réseaux de centres d'excellence en vue d'améliorer le rendement du Canada en sciences et en technologie, et de faciliter le transfert des connaissances à ceux qui peuvent les utiliser pour favoriser l'essor social et économique du Canada (47 millions de dollars en 1998–1999).

- Partenariat technologique Canada est un organisme spécial au sein d'Industrie Canada. Il est voué à la promotion du développement et de la commercialisation de technologies innovatrices destinées à contribuer à la croissance économique, de même qu'à la création d'emplois et de richesse (250 millions de dollars en 1998–1999).

**Nous présentons dans le chapitre les réponses d'Industrie Canada, du Conseil national de recherches du Canada et du Conseil de recherches en sciences naturelles et en génie du Canada. Les deux conseils acceptent de donner suite à toutes nos recommandations. Industrie Canada accepte de donner suite à toutes nos recommandations sauf une. Le Ministère a indiqué qu'aucune mesure supplémentaire n'est requise pour donner suite à notre recommandation sur la justification du montant des contributions.**



# Portefeuille de l'Industrie

## L'investissement dans l'innovation

## Chapitre 19 – Points saillants

**19.1** La présente vérification vise à déterminer si quatre programmes de subventions et de contributions, dans lesquels plus de 1,3 milliard de dollars ont été investis au cours des trois dernières années, ont véritablement contribué à améliorer le rendement du Canada en matière d'innovation. Nous avons vérifié les programmes suivants :

- le Programme d'aide à la recherche industrielle — Conseil national de recherches du Canada (CNRC)
- le Programme de partenariats de recherche — Conseil de recherches en sciences naturelles et en génie du Canada (CRSNG)
- les Réseaux de centres d'excellence — CRSNG
- Partenariat technologique Canada — Industrie Canada

**19.2** Nous nous attendions à ce que ces programmes se fondent sur une solide connaissance des problèmes de rendement en matière d'innovation dans l'économie. Bien que la documentation abonde sur divers aspects du rendement de l'innovation au sein de l'économie, la signification globale de tous ces renseignements n'est pas entièrement claire. En outre, nous nous sommes rendu compte que les gestionnaires n'ont pas défini les problèmes particuliers de rendement que ces programmes doivent régler, ni précisé quels résultats ces programmes doivent produire en ce qui concerne la promotion de l'innovation.

**19.3** Nous avons également tenté de savoir si ces programmes étaient bien administrés et si les gestionnaires s'étaient assurés qu'il y aurait optimisation des ressources. Nous n'avons pu établir avec certitude qu'il y a eu un soutien adéquat dans le cas de nombreuses contributions accordées en vertu du Programme d'aide à la recherche industrielle, de même que dans le cas de nombreuses subventions octroyées en vertu du Programme de partenariats de recherche. Même si les avantages techniques des projets que nous avons examinés étaient bien documentés, on expliquait trop peu souvent les retombées commerciales ou précommerciales éventuelles de même que la raison d'être de l'aide gouvernementale requise. De plus, les gestionnaires disposaient de peu d'information sur des questions de rendement importantes, notamment en ce qui a trait aux résultats commerciaux ou précommerciaux des projets financés.

**19.4** Nous avons conclu qu'une diligence raisonnable avait été exercée en ce qui concerne les subventions accordées en vertu du programme des Réseaux de centres d'excellence et qui étaient visées par notre vérification. Nous avons également conclu que les gestionnaires de Partenariat technologique Canada (PTC) avaient fait preuve de diligence raisonnable en ce qui a trait aux contributions que nous avons examinées, à quelques exceptions près. PTC pourrait surveiller davantage l'évolution des projets financés et assurer un meilleur suivi des résultats, de même que les rapports qu'il présente au Parlement sur la façon dont il partage les risques et les profits avec les bénéficiaires de subventions.

### Contexte et autres observations

**19.5** Un des objectifs de la politique du gouvernement est de bâtir une économie davantage axée sur l'innovation. Selon certains rapports gouvernementaux récents, il y aurait un « fossé de l'innovation » au Canada,

recevront leur plein salaire pendant au moins trois ans. Environ 465 employés ont accepté de devenir membres du personnel de l'entrepreneur.

**18.7** Il est trop tôt pour déterminer si les économies que le Ministère prévoit réaliser grâce à cette initiative se concrétiseront. Nous ne pouvons pas actuellement juger si le Ministère recevra des services dont la qualité est au moins égale à celle qu'il assurait lui-même et si ces services lui reviendront moins cher. Toutefois, les marchés comportent des mécanismes qui sont propices à la réalisation d'économies. Nous assurerons le suivi de ces questions dans nos futurs travaux de vérification.

**18.8** Nous encourageons Travaux publics et Services gouvernementaux Canada à continuer de recourir à des « surveillants de l'équité » dans le cas des marchés complexes et d'envergure. Dans un projet d'une telle ampleur et d'une telle complexité, nous ne nous attendions pas à ce que toutes les exigences contractuelles soient satisfaites à la date de prise en charge par l'entrepreneur. Nous nous attendions, à tout le moins, à ce que le Ministère ait un plan d'action relativement aux produits non encore livrés. Nous avons donc recommandé au Ministère d'élaborer, en collaboration avec l'entrepreneur, un plan d'action qui portera sur les questions contractuelles en suspens, notamment sur les dates d'achèvement cibles et sur les responsabilités respectives des parties pour le règlement de ces questions.

**Le Ministère est d'accord avec notre recommandation.**

# Travaux publics et Services gouvernementaux Canada

## Autres formes de prestation de services : l'impartition des services de gestion immobilière

## Chapitre 18 – Points saillants

**18.1** Le processus d'impartition utilisé par Travaux publics et Services gouvernementaux Canada (TPSGC) afin d'assurer l'exploitation et l'entretien des deux tiers des immeubles dont il a la charge a été bien géré et est conforme aux objectifs du Ministère. Nous avons constaté que le processus d'appel d'offres était ouvert, transparent et équitable. Les marchés étaient bien conçus, et la prise en charge par l'entrepreneur s'est faite sans heurt. Une caractéristique importante du processus d'impartition a été le recours à des « surveillants de l'équité », ce qui donne à la haute direction du Ministère, de source indépendante, l'assurance que le processus s'est déroulé de façon équitable et conformément aux règles établies.

**18.2** Étant donné que quelques-unes des principales caractéristiques du processus de surveillance et de contrôle n'étaient pas en place au moment du transfert des opérations, les activités courantes de gestion des marchés ont donné lieu à des problèmes. Des éléments importants, qui devaient être prêts à la signature des contrats, notamment les budgets de la première année, les évaluations de l'état des immeubles et les indicateurs de satisfaction des locataires, n'ont été prêts que bien plus tard au cours de la première année. Par conséquent, le Ministère ne pourra effectuer une évaluation complète du rendement de l'entrepreneur durant la première année et obtenir ainsi l'assurance totale qu'il reçoit la quantité et la qualité de services auxquelles il a droit.

**Contexte et autres observations**

**18.3** Travaux publics et Services gouvernementaux Canada, par l'entremise de sa Direction générale des services immobiliers, est le principal locateur d'une grande partie du portefeuille de biens immobiliers du gouvernement. Ce stock de locaux, qu'il s'agisse d'immeubles de bureaux, de laboratoires, d'entrepôts ou encore des édifices du Parlement ou d'autres « immeubles à valeur patrimoniale », a une superficie d'environ 6 millions de mètres carrés. TPSGC gère également 3 000 baux qui représentent un loyer annuel de 550 millions de dollars. La Direction générale est donc l'un des plus grands gestionnaires immobiliers au pays.

**18.4** En 1996, le Ministère a mis en oeuvre une initiative appelée « Autres formes de prestation de services » (AFPS). Un élément clé de cette initiative était de passer des marchés de gestion et d'exploitation pour un portefeuille d'immeubles; ces marchés allaient des services de nettoyage et d'exploitation des systèmes d'immeubles aux projets d'entretien, d'aménagement paysager et de réparation. Cette initiative a été lancée en réponse à l'Examen des programmes réalisé par le gouvernement en 1994 et servait de stratégie de restructuration de la Direction générale en mettant l'accent sur ses activités essentielles. La Direction générale désirait également appuyer l'industrie canadienne de gestion immobilière et réduire ses coûts grâce à cette initiative.

**18.5** Le Ministère a passé avec le secteur privé des marchés d'exploitation et d'entretien pour environ 300 immeubles qui représentent une superficie d'environ 2,3 millions de mètres carrés de locaux à bureaux. Le Ministère s'attend à réaliser des économies d'environ 20 millions de dollars par année en confiant la gestion de ces immeubles au secteur privé.

**18.6** Les immeubles ont été regroupés par région et leur gestion a été proposée au secteur privé dans le cadre de 13 marchés distincts, d'une valeur totale d'environ 170 millions de dollars. Le même entrepreneur a été retenu pour chacun des 13 marchés. Cet entrepreneur a offert du travail à presque tous les employés touchés, qui

**17.7** Les projets de construction de routes, de ponts, de réseaux d'aqueducs et d'égouts ont été les plus courants au cours des deux phases, et plus de 60 p. 100 des dépenses totales y ont été consacrées. Les projets au titre des services communautaires, culturels et récréatifs ont été moins importants pendant la Phase II.

**17.8** Le programme Travaux d'infrastructure Canada est un programme de contributions. Cela signifie qu'il y a versement de fonds fédéraux si les conditions liées au rendement (tel le ciblage des projets) et les exigences du programme sont respectées. Notre examen des dossiers de projets a toutefois révélé que les responsables du programme n'avaient pas porté assez d'attention à ces exigences.

**17.9** Enfin, nous avons constaté qu'au cours de la Phase II, des progrès avaient été réalisés en ce qui touche le respect des exigences de la *Loi canadienne sur l'évaluation environnementale*. Cependant, lorsque des effets néfastes sur l'environnement ont été décelés, les mesures d'atténuation n'ont pas été suffisamment précisées et suivies de près.

**Le Secrétariat du Conseil du Trésor a indiqué que des améliorations doivent et devraient être apportées à la prestation future de tels programmes, mais que le chapitre présente une vision négative et non appropriée d'un programme dont les résultats ont été couronnés de succès et qui a contribué à l'amélioration des relations entre les paliers fédéral, provincial et municipal du Canada.**

# Le programme Travaux d'infrastructure Canada

## Phase II et suivi de la vérification de la Phase I

## Chapitre 17 – Points saillants

**17.1** Le suivi de notre chapitre de vérification de 1996 indique que peu de progrès ont été accomplis afin de combler les lacunes cernées dans la Phase I du programme Travaux d'infrastructure Canada. Nos observations de 1996 portaient sur la nécessité de définir plus clairement les objectifs du programme et les critères de sélection des projets, de même que sur la nécessité d'améliorer l'information, y compris l'estimation des emplois créés et les rapports à ce sujet. Les évaluations environnementales sont le principal secteur où il y a eu des améliorations. On a également constaté une amorce d'intervention pour répondre au besoin d'effectuer des vérifications de conformité. Toutefois, rien n'a été fait pour donner suite à la plupart de nos préoccupations.

**17.2** Le programme a été mis en oeuvre dans des délais très serrés. Les gestionnaires du programme, tant ceux du fédéral que des provinces, ont une opinion très positive à l'égard de l'approche adoptée et considèrent que le programme a contribué au renforcement des relations et de la collaboration fédérales-provinciales. Les résultats produits à ce jour au titre du programme depuis 1994 ont été obtenus grâce à la mobilisation et à la coordination des efforts et des ressources de trois paliers de gouvernement et d'autres partenaires, afin de planifier et de mettre en oeuvre plus de 17 000 projets d'ingénierie et de construction à l'échelle du pays.

**17.3** Notre vérification de la Phase II indique que, dans l'optique fédérale, le programme « repose essentiellement sur la confiance » et que la reddition de comptes laisse à désirer. Les critères de sélection des projets n'ont pas été définis clairement et un grand nombre des dossiers que nous avons examinés ne contenaient pas de preuves convaincantes pour justifier les assertions des promoteurs de projets au regard des critères de sélection. Dans la plupart des cas, les fonctionnaires fédéraux ont recommandé l'approbation de projets sans s'assurer que les assertions des promoteurs de projets étaient accompagnées d'information à l'appui suffisante.

**17.4** Nous avons constaté que les fonctionnaires fédéraux se sont fiés aux certifications municipales et provinciales à l'égard des frais réclamés. Les vérifications de conformité, qui, entre autres choses, constituent une façon d'obtenir l'assurance que les contrôles financiers sont suffisants, n'ont pas été exécutées en temps opportun.

**17.5** Il y a des mesures incitatives en faveur du transfert à l'initiative d'infrastructure fédérale, par les gouvernements provinciaux, des ressources budgétaires qu'ils avaient initialement affectées à leurs propres programmes. Cependant, cette substitution de programme n'est pas inévitable. Dans deux provinces, par exemple, des mesures de protection avaient été instaurées lors de la Phase I afin de limiter « le phénomène de substitution ». Toute substitution réduit les avantages du programme aux chapitres du développement de l'infrastructure et de la création d'emplois. Dans ses rapports au Parlement, le Secrétariat du Conseil du Trésor n'a pas clairement expliqué les limites des estimations des emplois créés par le programme.

**Contexte et autres observations**

**17.6** Le programme Travaux d'infrastructure Canada, instauré par le gouvernement fédéral en 1994 et présenté comme une initiative à coûts partagés temporaire d'une valeur de six milliards de dollars, a pour objectif de faciliter le développement et l'entretien de l'infrastructure locale ainsi que la création d'emplois. En 1997, le gouvernement fédéral a annoncé la prolongation du programme (Phase II) en y consacrant la somme supplémentaire de 425 millions de dollars, qui devait être complétée par un apport de 850 millions de dollars en provenance des provinces et d'autres partenaires. La plupart des travaux de construction prévus dans le cadre des deux phases devaient prendre fin le 31 mars 1999 ou avant cette date.

**16.9** Même si, en général, le traitement des déclarations de TPS est une activité des centres fiscaux, les programmes de vérification de Revenu Canada sont réalisés par des vérificateurs dans les bureaux des services fiscaux partout au pays. Le Ministère compte deux grands programmes de vérification. Le premier est le programme de vérification avant paiement, qui représente environ 25 p. 100 du temps des vérificateurs. Après que les données ont été traitées, mais avant que les remboursements ne soient émis, Revenu Canada applique une série de contrôles de validité automatisés pour s'assurer du caractère approprié des demandes de remboursement. Les contrôles sont conçus de manière à faire ressortir les demandes comportant les risques les plus élevés d'inobservation. Les demandes de remboursement ainsi relevées sont envoyées par voie électronique aux bureaux des services fiscaux partout au Canada pour examen et, dans quelques cas, pour vérification. En 1997–1998, le programme de vérification avant paiement de la TPS a donné lieu à l'établissement de cotisations totalisant environ 165 millions de dollars.

**16.10** Revenu Canada effectue également des vérifications après paiement. Ces vérifications représentent environ 75 p. 100 du temps des vérificateurs et mettent l'accent non seulement sur des déclarations en particulier, mais également sur les inscrits qui présentent les risques les plus élevés d'inobservation. En 1997–1998, ces travaux ont donné lieu à des cotisations totalisant environ 355 millions de dollars.

**16.11** Nous avons examiné l'efficience et l'efficacité des fonctions de traitement des déclarations de TPS et de vérification. L'utilisation efficiente et efficace des ressources est importante parce qu'elle a une incidence directe sur la protection des fonds publics et sur l'amélioration du service aux inscrits.

**Les réponses de Revenu Canada à nos recommandations sont incluses dans le chapitre. Le Ministère est d'accord avec nos sept recommandations et, dans ses réponses, il décrit les mesures qui ont été prises ou qui sont en cours pour régler ces questions.**

# Revenu Canada

## Taxe sur les produits et services : le traitement des déclarations et la vérification

## Chapitre 16 – Points saillants

**16.1** Nous avons constaté que le Centre fiscal de Summerside de Revenu Canada, jusqu'à récemment son seul centre de traitement de la TPS, est progressivement devenu plus efficient. Il a rationalisé plusieurs processus, amélioré ses procédés de correction des erreurs, réduit les coûts unitaires et accéléré ses opérations de traitement. Comme premier pas vers la décentralisation du traitement des déclarations de TPS, Revenu Canada a davantage simplifié ses procédures de traitement. Les résultats d'un essai-pilote laissent entrevoir d'autres gains d'efficience.

**16.2** À l'heure actuelle, les normes de traitement des déclarations tendent à ne pas suffisamment mettre l'accent sur la qualité, l'exactitude, la rapidité et le coût unitaire; des problèmes liés à la disponibilité et à la fiabilité des données nuisent à l'utilisation des renseignements sur le rendement. L'adoption de meilleures mesures du rendement aiderait à gérer les frais d'intérêts et à améliorer le service aux inscrits.

**16.3** Revenu Canada peut faire plus pour améliorer le rendement de sa série de contrôles de validité automatisés. Ces contrôles sont la pierre angulaire de son programme de vérification avant paiement. Toutefois, ils ne sont pas particulièrement discriminants au moment du ciblage initial des demandes de remboursement incorrectes. Revenu Canada doit également envisager d'examiner et de vérifier les déclarations sur lesquelles aucun remboursement n'est demandé en même temps qu'il effectue une vérification avant paiement des demandes de remboursement.

**16.4** Bon nombre de vérifications après paiement de Revenu Canada exigent trop d'heures des employés et se poursuivent pendant trop longtemps. Revenu Canada doit aider ses vérificateurs à raccourcir la durée des vérifications en fournissant une surveillance plus étroite et en favorisant une meilleure planification, une meilleure exécution et un meilleur contrôle du travail de vérification. Le rendement des vérifications peut également être amélioré grâce à une meilleure sélection des inscrits aux fins de la vérification.

### Contexte et autres observations

**16.5** L'instauration de la taxe sur les produits et services (TPS) en 1991 a eu d'énormes répercussions sur les activités de Revenu Canada. Le Ministère a eu à élaborer un tout nouveau système de traitement et de nouvelles techniques pour vérifier l'exactitude des déclarations présentées par près de 2 millions d'inscrits, allant des petits entrepreneurs aux sociétés multinationales.

**16.6** En 1993, Revenu Canada a ouvert un nouveau centre fiscal à Summerside (Île-du-Prince-Édouard) pour traiter toutes les déclarations de TPS et tous les formulaires de demande de remboursement des inscrits ne résidant pas au Québec. (Le ministère du Revenu du Québec effectue le traitement et la vérification de la TPS pour les inscrits du Québec.) Le Centre fiscal de Summerside emploie l'équivalent de près de 660 employés et a un budget de fonctionnement annuel d'environ 28 millions de dollars.

**16.7** Revenu Canada traite maintenant quelque 5,5 millions de déclarations de TPS chaque année, ainsi que 200 000 formulaires de demande de remboursement et 3 millions de versements des inscrits à la TPS.

**16.8** Le Ministère a commencé à décentraliser une partie de ses activités de traitement de la TPS vers d'autres centres fiscaux partout au pays. Le traitement des formulaires de demande de remboursement continuera d'être effectué à Summerside.

**15.8** Les bilans dressés après-coup par le LLCM et l'ACIA manquaient de transparence. Dans ce genre de situation, vu notamment que la cause de la contamination n'a jamais été découverte, nous croyons que pour le bien de la santé publique, il est important que tous les participants collaborent à cet exercice et en tirent des enseignements.

**Nous présentons dans ce chapitre les réponses de Santé Canada et de l'Agence canadienne d'inspection des aliments à nos recommandations. Santé Canada et l'Agence canadienne d'inspection des aliments sont tous deux d'accord avec ces recommandations et ont accepté de prendre des mesures correctives. Dans certains cas, ils ont déjà entrepris de corriger la situation.**

# La gestion d'une épidémie de toxi-infection alimentaire

## Chapitre 15 – Points saillants

**15.1** Au printemps de 1998, une épidémie de toxi-infection alimentaire s'est déclarée à l'échelle du pays; c'était l'une des plus importantes épidémies de ce type dans les annales canadiennes, et plus de 800 cas signalés dans tout le Canada ont fait l'objet d'une enquête. Plus de 80 p. 100 des personnes touchées étaient des enfants de moins de 15 ans. Au moins 60 d'entre eux ont été hospitalisés.

**15.2** Certains aspects importants de l'intervention lors de l'épidémie ont bien fonctionné, mais d'autres pas. Le produit contaminé a été identifié rapidement et a été retiré immédiatement des points de vente dès que le rappel a été annoncé. Il faut cependant déplorer l'absence d'échange rapide d'information pour permettre de déterminer l'étendue de l'épidémie. Les organismes d'intervention n'ont pas non plus coopéré pleinement. L'Agence canadienne d'inspection des aliments (ACIA) n'a pas mis à la disposition des autorités sanitaires provinciales certains renseignements sur la distribution lorsque celles-ci en ont fait la demande pour faciliter leur enquête. De plus, la décision abrupte de l'ACIA de ne pas diriger une des inspections d'usine a créé de la confusion et retardé inutilement les choses.

**15.3** Il faut un cadre officiel où sont énoncés clairement les rôles et les responsabilités du Laboratoire de lutte contre la maladie (LLCM) de Santé Canada par rapport à ceux des autres participants, afin d'orienter les mesures prises en réponse à des problèmes qui menacent la santé publique. De nombreuses personnes auraient pu être épargnées si les ministères fédéral et provinciaux de la Santé étaient intervenus plus rapidement.

**Contexte et autres observations**

**15.4** Le cas décrit dans le présent chapitre illustre bon nombre des questions abordées au chapitre 14 sur la surveillance nationale de la santé et la gestion des épidémies et des dangers qui menacent la santé publique. La vérification porte sur la façon dont les organismes fédéraux et provinciaux (le Laboratoire de lutte contre la maladie de Santé Canada et la Direction des aliments, l'Agence canadienne d'inspection des aliments ainsi que les ministères provinciaux et les services locaux de santé publique) ont réagi face à cette épidémie de toxi-infection alimentaire d'envergure nationale.

**15.5** Les toxi-infections alimentaires ont d'importantes répercussions du fait que les produits alimentaires sont distribués sur une grande échelle et que les toxi-infections alimentaires risquent de toucher un nombre considérable de personnes réparties sur de vastes territoires.

**15.6** Au nombre des activités du Laboratoire de lutte contre la maladie figurent la réalisation rapide d'enquêtes et la lutte contre les épidémies, souvent en collaboration avec les provinces et d'autres organismes fédéraux — en particulier avec l'Agence canadienne d'inspection des aliments dans le cas d'une maladie causée par un aliment. L'ACIA est chargée des mesures d'application dans les situations d'urgence de nature alimentaire et elle doit assumer la direction des enquêtes et la coordination des interventions en cas d'urgence de nature alimentaire. La Direction des aliments de Santé Canada est responsable de l'évaluation de l'efficacité des activités de l'ACIA touchant la salubrité des aliments. Les médecins-hygiénistes provinciaux et locaux sont mandatés par la loi pour enquêter sur les épidémies, et les laboratoires provinciaux dispensent des services de laboratoire.

**15.7** Nous avons constaté que le LLCM n'était pas bien préparé à gérer des épidémies. Il n'avait aucune procédure opérationnelle établie pour intervenir en cas d'épidémie de toxi-infection alimentaire. En outre, il n'existait pas de protocoles officiels entre Santé Canada, l'ACIA et les provinces qui définissaient clairement les procédures et le rôle du LLCM par rapport aux rôles des autres participants aux enquêtes sur les épidémies.

## Chapitre 14 – Points saillants

**14.1** Nous avons constaté des lacunes dans la surveillance nationale des maladies et des blessures qui, prises ensemble, ont de nettes répercussions nationales sur la santé publique. Premièrement, elles compromettent la capacité de Santé Canada de déceler, de prévoir, de prévenir et de contrôler les risques pour la santé associés aux éclosions de maladies transmissibles et à d'autres menaces pour la santé. Deuxièmement, elles compromettent sa capacité de planifier, de mener à bien et d'évaluer des programmes de santé publique et d'autres programmes qui traitent des causes et du traitement des maladies.

**Contexte et autres observations**

**14.2** La surveillance de la santé est une fonction de base de la santé publique. Le Laboratoire de lutte contre la maladie (LLCM) de la Direction générale de la protection de la santé est le principal responsable de la surveillance nationale des maladies transmissibles et chroniques et des blessures. Le LLCM compte énormément sur son interaction et sa collaboration avec les provinces et les territoires et une variété d'autres ministères fédéraux et des organisations non gouvernementales.

**14.3** Il n'existe pas de loi précise, de politique ou d'entente qui lient les éléments distincts des fonctions de santé publique les uns aux autres aux divers paliers de gouvernement. En effet, il existe un vide : les activités actuelles de surveillance de la santé se font, dans une large mesure, en fonction des besoins du moment.

**14.4** Nous avons constaté qu'il n'existait que quelques rares ententes ou protocoles pour prévenir l'entrée au Canada de graves maladies transmissibles, ainsi que pour traiter des éclosions de maladies et des menaces pour la santé publique. Le peu d'attention accordée au processus de normalisation pour contrôler les menaces expose la santé des Canadiens à un risque injustifié.

**14.5** Les systèmes de surveillance clés que nous avons examinés ne fonctionnaient pas comme prévu. Pour un certain nombre de raisons, ces systèmes ne permettaient pas à Santé Canada de surveiller efficacement des maladies transmissibles comme la grippe, le sida, la tuberculose et les intoxications alimentaires. Il en va de même pour les systèmes de surveillance des blessures et des maladies chroniques comme le cancer, le diabète et les maladies cardio-vasculaires et les accidents vasculaires cérébraux. Nous avons aussi trouvé qu'il y aurait lieu d'améliorer la mesure du rendement et la communication des résultats.

**14.6** Des travaux ont été entrepris en vue de renforcer la capacité de surveillance future de la Direction générale de la protection de la santé. L'appui accordé par la Direction générale à un réseau national de surveillance de la santé intégré pour l'information sur la santé publique constitue une importante mesure prise à cet égard. On ne sait pas exactement à quel moment un tel réseau sera mis en oeuvre, et il est absolument nécessaire que toutes les parties visées par le réseau respectent leur engagement en regard de sa mise en oeuvre.

**Nous présentons dans ce chapitre les réponses de Santé Canada à nos recommandations. Le Ministère est d'accord avec ces recommandations et a accepté de prendre des mesures correctives. Dans certains cas, il a déjà entrepris de corriger la situation.**

**Le Ministère a répondu positivement à toutes nos recommandations et compte prendre des mesures qui devraient régler les problèmes constatés au cours de la vérification. Plus particulièrement, le Ministère s'engage à rectifier les situations de non-respect des exigences du Système d'information sur les matières dangereuses utilisées au travail, à revoir ses procédures de contrôle des effluents et ses plans relatifs aux rejets dans l'atmosphère, à déterminer les politiques et règlements provinciaux et municipaux applicables à chaque base et escadre, et à établir des exigences de base pour assurer l'uniformité des vérifications et des inspections.**

**Le Ministère n'est pas entièrement d'accord avec nos conclusions sur le niveau de non-conformité, soutenant que ses vérifications n'ont permis de déceler que quelques cas chaque année.**

# Défense nationale

## Les matières dangereuses : la gestion des risques pour les employés et l'environnement

## Chapitre 13 – Points saillants

**13.1** La vérification que nous avons faite dans dix bases des Forces canadiennes nous a permis de constater que les cas de non-respect des exigences de la législation et des politiques relatives aux matières dangereuses à la Défense nationale étaient répandus, fréquents et répétitifs. Cette situation peut exposer les employés et l'environnement à des risques accrus.

**13.2** Le Ministère a fait des efforts pour améliorer sa gestion des matières dangereuses. L'incidence de ces efforts n'a pas souvent été clairement mesurée, mais nous avons constaté que les taux de blessures associées à des matières dangereuses et nécessitant au moins une journée d'absence ont diminué de plus de la moitié entre 1993 et 1997.

**13.3** Aucune des dix bases soumises à la vérification ne contrôle périodiquement les effluents et rejets dans l'atmosphère de tous les contaminants (matières dangereuses) à l'égard desquels des plafonds ont été imposés par des lois ou lignes directrices fédérales. En tant qu'organisme fédéral, le ministère de la Défense nationale n'est pas lié par la législation des provinces ou des municipalités, et les bases ne vérifient pas si leurs rejets respectent toutes les normes provinciales et municipales.

**13.4** Il y a un manque d'information sur le respect général des exigences de la législation et des politiques. Les systèmes de gestion utilisés actuellement pour assurer le respect des exigences dans les bases et les unités ne favorisent pas l'amélioration continue. Il n'y a ni objectifs ni plans établis, les programmes de vérification et d'inspection ne sont pas cohérents, et les données sur le rendement manquent. Ces facteurs jouent un rôle important dans les cas de non-respect des exigences de la législation et des politiques par le Ministère.

**Contexte et autres observations**

**13.5** Le ministère de la Défense nationale utilise plus de 6 000 produits dangereux comme l'essence, les munitions et l'électrolyte d'accumulateurs. Il estime qu'au moins le quart de ses 80 700 employés à plein temps sont fréquemment en contact avec des produits chimiques dangereux et que tout employé peut se trouver en contact avec des matières dangereuses au cours de la journée.

**13.6** Selon la politique du Ministère, les activités liées à la gestion des matières dangereuses doivent respecter, voire dépasser, la lettre et l'esprit des lois, règlements, politiques et directives du gouvernement fédéral et, s'il y a lieu, être compatibles avec les lois des provinces ainsi que les normes municipales et internationales. Le Ministère n'a pas défini ce qu'il entend par « s'il y a lieu ».

**13.7** Notre vérification a porté principalement sur la façon dont le Ministère applique sa politique sur les matières dangereuses et les programmes connexes. Nous avons étudié les politiques, les procédures et les résultats obtenus au Quartier général de la Défense nationale et fait du travail sur place dans dix bases. Nous avons également examiné comment le Ministère met en oeuvre les sections pertinentes de sa stratégie de développement durable.

**13.8** Il faut faire preuve de leadership pour fixer des objectifs, pour définir et contrôler des mesures du rendement, puis pour faire des suivis afin de s'assurer que les programmes sont mis en oeuvre. Les commandants et les gestionnaires ont l'occasion de faire preuve de leadership quand ils doivent revoir la stratégie de développement durable du Ministère et appliquer les systèmes de gestion de l'environnement.

protéger la propriété intellectuelle découlant de la recherche en agriculture, et les nouvelles cultures rapportaient peu d'argent au phytogénéticien. Or, maintenant, de nouveaux cultivars peuvent être protégés grâce à la *Loi sur la protection des obtentions végétales* de 1990, tandis que certains nouveaux procédés biotechnologiques peuvent l'être par un brevet.

**12.5** La Direction générale de la recherche est la section du ministère fédéral de l'Agriculture qui se consacre à la recherche scientifique. Elle dispose d'un budget annuel d'environ 250 millions de dollars et elle est un acteur clé dans la recherche agricole au Canada. C'est un des principaux partenaires de « L'innovation pour un avenir durable », l'un des secteurs d'activité du Ministère. Elle a fait sa marque pour la première fois il y a plus de 100 ans avec le lancement du blé Marquis, variété qui a grandement contribué au développement de l'agriculture des Prairies. Les recettes que la Direction générale tire actuellement des licences qu'elle a concédées sur sa propriété intellectuelle se situent aux environs de 3,4 millions de dollars par année, fraction minime mais croissante de son budget de 250 millions de dollars.

**12.6** Les difficultés auxquelles la Direction générale se heurte dans la gestion de la propriété intellectuelle sont : le rythme accéléré des changements, surtout dans le domaine de la biotechnologie; le climat d'incertitude engendré à la suite des compressions d'effectifs en son sein et de l'importance accrue accordée aux partenariats en recherche; la nécessité de procéder à de vastes consultations sur la politique en matière de propriété intellectuelle; le coût élevé de la protection et de l'application de ses droits de propriété intellectuelle; la nécessité de comprendre le marché qui s'offre à sa propriété intellectuelle; la nécessité d'une bonne information de gestion.

**Le Ministère accepte notre recommandation et s'engage à ce que la Direction générale élabore et communique un cadre général de gestion de sa propriété intellectuelle.**

# Agriculture et Agroalimentaire Canada

## Une nouvelle moisson : la propriété intellectuelle dans la recherche

## Chapitre 12 – Points saillants

**12.1** Au cours des 10 à 15 dernières années, le contexte entourant la propriété intellectuelle relative à la production alimentaire au Canada s'est modifié considérablement. Or, cette transformation force la Direction générale de la recherche d'Agriculture et Agroalimentaire Canada à repenser sérieusement sa façon de gérer sa propre propriété intellectuelle. Les questions suivantes se posent à elle :

- Que devrait-elle faire lorsqu'une de ses découvertes mène à une invention? Devrait-elle publier les résultats de ces travaux ou en assurer la protection juridique, puis en concéder la licence à autrui? Dans le deuxième cas, devrait-elle octroyer la licence à une seule organisation ou à plusieurs?
- Comment devrait-elle traiter la propriété intellectuelle d'autrui qu'elle utilise dans ses propres travaux de recherche? Par exemple, si elle met au point une nouvelle pomme de terre en profitant de brevets du secteur privé, est-ce que cela nuira à sa capacité de mettre le nouveau produit entre les mains des producteurs? Est-ce qu'elle devrait payer pour avoir accès à des brevets du secteur privé? Devrait-elle faire du troc avec ses propres brevets?

Nous croyons qu'il est important pour la Direction générale de répondre à ces questions, à savoir quelle est la meilleure façon de transmettre sa propriété intellectuelle et comment acquérir dans les meilleures conditions possibles la propriété intellectuelle d'autrui, car ces questions ont une incidence sur l'avenir de l'agriculture. En effet, le secteur agricole canadien allant en se complexifiant, il dépend de plus en plus de l'échange de nouvelles connaissances venant de la Direction générale de la recherche et d'autres organisations et de l'accès à ce nouveau savoir. Les réponses à ces questions ont aussi une incidence sur les recettes que le gouvernement tirera de la propriété intellectuelle.

**12.2** Entre autres, il est particulièrement urgent de contrer la menace qui pèse sur la capacité de la Direction générale de continuer à donner au secteur agricole l'accès à des innovations. Ce danger vient de l'usage considérable dans les projets de recherche de la propriété intellectuelle appartenant à autrui. Si elle devait se heurter à des obstacles majeurs en cherchant à obtenir les droits d'utilisation de ces technologies brevetées, la Direction générale pourrait avoir à modifier, à retarder ou à abandonner des projets de recherche en cours.

**12.3** La Direction générale de la recherche s'emploie à relever ces défis, mais cette entreprise est devenue difficile à cause des changements substantiels survenus en son sein et dans le secteur agroalimentaire. À notre avis, il lui faut hâter et étendre ses efforts. Un cadre décisionnel est nécessaire pour guider les employés lorsqu'ils ont à décider quels produits de la recherche devraient faire l'objet d'une protection juridique, comment acquérir dans les meilleures conditions possibles la nouvelle propriété intellectuelle et quelle est la meilleure façon de transmettre sa propre propriété intellectuelle protégée. Les autres défis qui se posent à elle sont l'amélioration de la communication avec le personnel, l'information sur sa propriété intellectuelle et la prise en compte des opinions des parties intéressées dans le processus décisionnel. Une approche globale à l'égard de la gestion de la propriété intellectuelle s'impose.

**Contexte et autres observations**

**12.4** La propriété intellectuelle s'entend de l'information qui est utile, transférable et sous la gouverne de quelqu'un. Cela comprend les inventions, dont certaines sont régies par des brevets et d'autres, par le secret. Elle inclut également des variétés de plantes et du matériel végétal. Jusqu'à récemment, il y avait peu de moyens de

**11.7** Les frais d'utilisation sont une source importante de préoccupation dans le secteur agricole. Au cours des cinq dernières années, les recettes qu'ils ont rapportées dans certains domaines se sont accrues de 300 p. 100. Les producteurs et le secteur se sont opposés à la façon dont la tarification a été mise en oeuvre et ont déploré l'impact cumulatif qu'elle a eu. Certains ont même prétendu que les frais d'utilisation étaient un impôt.

**11.8** Lors de la création de l'Agence canadienne d'inspection des aliments, on a annoncé un moratoire sur les nouvelles hausses de tarif jusqu'en l'an 2000. Les fonctionnaires représentant les trois entités ont émis un grand nombre d'interprétations différentes non seulement sur la durée du moratoire, mais aussi sur son application à d'autres entités du portefeuille. Nous constatons que les entités ayant fait l'objet de notre vérification se croient empêchées par le moratoire de corriger le manque, même reconnu, d'uniformité dans la tarification et d'apporter les changements que commande l'évolution de leur cadre opérationnel. À notre avis, le moratoire leur donne l'occasion de réévaluer leur propre situation, d'élaborer des principes directeurs et de planifier des améliorations.

**11.9** Les entités sont confrontées à une situation particulière puisqu'elles imposent des frais à des utilisateurs qu'elles réglementent. Il peut se révéler difficile d'établir le montant que les utilisateurs d'un service devraient verser pour les avantages qu'ils touchent lorsque ce service bénéficie aussi au grand public. Dans la mesure du possible, il faudra mener de plus vastes consultations qui tiendront compte des intérêts du secteur et de la population. D'une part, ceux qui paient des frais d'utilisation désirent influer sur le mode de prestation des services et, d'autre part, les entités doivent s'assurer de tenir compte des besoins de tous les intervenants.

**11.10** Les trois entités doivent prendre des décisions importantes sur les frais d'utilisation et faire le nécessaire pour régler les situations suivantes :

- En raison des récentes modifications apportées à ses activités et de l'évolution du secteur des grains, le barème actuel des frais de la Commission canadienne des grains n'est plus approprié.
- L'Agence canadienne d'inspection des aliments a majoré ses tarifs, mais n'a pas complété son plan concernant les frais d'utilisation. Par conséquent, les groupes de producteurs ne paient pas la même part des coûts, bien que les services qu'ils reçoivent de l'Agence soient de même nature; ils ne sont donc pas traités de la même façon par l'Agence.
- Agriculture et Agroalimentaire Canada n'a pas réussi à bien expliquer pourquoi, comment et quand il perçoit des frais d'utilisation pour chacun de ses programmes. Par conséquent, les motifs pour lesquels certains de ses programmes commandent des frais d'utilisation et d'autres programmes analogues pas, ne sont pas clairs.

**Les réponses d'Agriculture et Agroalimentaire Canada, de l'Agence canadienne d'inspection des aliments et de la Commission canadienne des grains à nos recommandations sont présentées à la fin du chapitre. Chacune des entités a indiqué qu'elle prendra des mesures afin de mettre en oeuvre les recommandations qui la concernent.**

# Les frais d'utilisation

## Chapitre 11 – Points saillants

**11.1** Nous avons observé un certain nombre de bonnes pratiques dans la façon dont Agriculture et Agroalimentaire Canada, la Commission canadienne des grains et l'Agence canadienne d'inspection des aliments ont conçu et géré les frais qu'ils imposent aux utilisateurs de leurs services. Cependant, le Ministère et les deux organismes ne respectent pas encore toutes les exigences de la politique gouvernementale sur les frais d'utilisation. Même si, au cours des dernières années, ces trois entités ont réalisé des progrès, elles sont en perte de vitesse et ne mettent pas à jour leurs droits d'utilisation à mesure que les programmes évoluent. Certains groupes d'utilisateurs pourraient ainsi payer plus que leur juste part et d'autres moins.

**11.2** D'après notre vérification, les entités considèrent souvent la tarification surtout comme une source de recettes et négligent la possibilité d'en tirer d'autres avantages. L'Agence canadienne d'inspection des aliments, par exemple, exige souvent les mêmes tarifs pour ses inspections, peu importe que les inspecteurs des aliments aient trouvé ou non des irrégularités, et ce même si une inspection ayant permis de déceler des problèmes oblige l'inspecteur à y consacrer plus de temps. Cette pratique n'incite pas le secteur à se conformer à la réglementation et, par conséquent, ne contribue pas à minimiser le temps que les inspecteurs de l'État consacrent à chacune de leurs interventions.

**11.3** Les entités qui ont fait l'objet de notre vérification devront améliorer de beaucoup leur façon de faire rapport à la population, au secteur et au Parlement sur leurs plans de tarification et sur les résultats qu'elles obtiennent. Même s'il s'agit d'un aspect litigieux qui a suscité beaucoup d'intérêt de la part du Parlement, les entités n'ont pas expliqué publiquement, dans la plupart des cas, pourquoi elles avaient jugé nécessaire d'imposer des frais d'utilisation particuliers et comment ceux-ci seraient appliqués. En outre, leurs rapports ne renferment pas suffisamment d'information pour permettre aux lecteurs de juger si la tarification est convenablement gérée.

**11.4** Les trois entités doivent améliorer leur gestion des frais d'utilisation dans un certain nombre de domaines, notamment au chapitre de l'établissement des coûts de leurs services, de l'évaluation de l'incidence des droits, de l'établissement de mécanismes officiels d'appel et de l'intégration de la tarification dans leur planification stratégique.

**Contexte et autres observations**

**11.5** Dans sa Politique sur le recouvrement des coûts et la tarification, de 1997, le gouvernement fédéral affirme qu'il convient d'appliquer des frais d'utilisation pour « les services qui confèrent à des récipiendaires identifiables des avantages directs au-delà de ceux dont bénéficie le grand public, à moins que cela ne porte atteinte à des objectifs politiques supérieurs ». Un des principes clés sous-jacents est que les frais d'utilisation procurent des avantages beaucoup plus vastes que le simple fait de produire des recettes, par exemple en rendant les services mieux adaptés aux besoins des clients.

**11.6** Les entités faisant partie du portefeuille de l'Agriculture exigent des frais d'utilisation pour un grand nombre de services différents. La Commission canadienne des grains, par exemple, impose au secteur des grains des frais pour peser et inspecter les grains destinés à l'exportation. Pour sa part, l'Agence canadienne d'inspection des aliments impose des frais aux importateurs et aux exportateurs pour inspecter les végétaux et les produits végétaux à l'égard des ravageurs ou des maladies. Enfin, Agriculture et Agroalimentaire Canada perçoit des frais d'utilisation auprès des éleveurs qui font paître leurs bovins dans des pâturages communautaires.

# Affaires indiennes et du Nord Canada

## Les modes de financement des Premières nations : suivi

## Chapitre 10 – Points saillants

**10.1** Affaires indiennes et du Nord Canada doit encore établir une meilleure correspondance entre le niveau de souplesse des modes de financement et la volonté et la capacité des Premières nations d'assumer la responsabilité des milliards de dollars qui leur sont versés annuellement par le Ministère.

**10.2** Le Ministère ne prend pas de mesures appropriées pour faire en sorte que les allégations d'inconduite, y compris les plaintes et les différends ayant trait aux modes de financement, soient réglées adéquatement. Le recours (mécanisme de règlement) doit être amélioré en tant qu'élément de la reddition de comptes.

**10.3** Le Ministère a indiqué qu'il a ralenti le rythme de mise en oeuvre de l'entente de transfert financier (ETF), un nouveau mode de financement, afin de régler les questions liées à la volonté et à la capacité des Premières nations de l'adopter. Le Ministère a encore un long chemin à parcourir s'il désire atteindre son objectif, à savoir que l'ETF devienne le mode de financement approprié et remplace les autres types de financement. Il devra trouver des moyens d'accélérer le processus de conversion tout en améliorant la coordination du financement avec les autres ministères fédéraux.

**Contexte et autres observations**

**10.4** Les modes de financement constituent un élément clé de la relation entre les Premières nations et le gouvernement fédéral. Le Parlement affecte chaque année une somme d'environ quatre milliards de dollars à Affaires indiennes et du Nord Canada afin de financer plusieurs programmes s'adressant aux collectivités des Premières nations. Ces programmes, qui portent sur l'aide sociale, l'éducation, les immobilisations, le logement et le développement économique, sont offerts à environ 600 Premières nations et à d'autres groupes autochtones.

**10.5** Dans notre rapport de novembre 1996, nous avons fait des recommandations sur les modes de financement, y compris l'ETF, et la coordination du financement dans l'ensemble des ministères fédéraux. Nous avons aussi fait des recommandations sur la reddition de comptes et l'adaptation des modes de financement aux besoins du Ministère et des Premières nations.

**10.6** Le présent suivi est axé sur la mise en oeuvre par le Ministère de nos recommandations de 1996.

**Le Ministère est d'avis que, en ce qui concerne le recours, le suivi s'étend au-delà des questions soulevées en 1996; toutefois, il reconnaît la nécessité de déployer des efforts continus afin d'améliorer certains aspects des modes de financement, y compris la reddition de comptes.**

**9.7** En 1994, nous avions insisté sur la nécessité de perfectionner la capacité de gestion et de la rendre plus efficace. Dans ce contexte, la communauté a dressé un profil des compétences pour les gestionnaires en sciences et technologie. Au cours de nos consultations, nous avons noté que la plupart des ministères à vocation scientifique utilisaient leurs propres profils de compétences plutôt que celui élaboré par le groupe de travail. De plus, ces profils servaient presque uniquement à identifier les besoins en formation; en règle générale, ils ne servaient ni à la sélection de gestionnaires, ni à leur promotion, ni à l'évaluation de leur rendement. Les pratiques relevées semblent indiquer un manque de consensus au sein de la communauté quant aux compétences en gestion inscrites au profil élaboré par le groupe de travail. Cela pourrait éventuellement gêner l'intégration des activités de recrutement et de formation ainsi que les systèmes de récompenses, de promotion et de rémunération prévus par le *Plan directeur pour la gestion des ressources humaines dans les domaines scientifiques et technologiques.*

**9.8** Le Secrétariat du Conseil du Trésor, les ministères et les organismes à vocation scientifique et la communauté scientifique et technologique s'engagent à poursuivre les stratégies et les plans élaborés à ce jour.

# La gestion du personnel scientifique et technologique

## Suivi

## Chapitre 9 – Points saillants

**9.1** Nous sommes satisfaits des efforts déployés par la communauté scientifique et technologique pour donner suite aux recommandations de notre vérification de 1994 et aux préoccupations exprimées dans notre rapport de suivi de 1996. À notre avis, malgré un contexte difficile, la communauté fait preuve de leadership et de persévérance pour régler les questions liées aux ressources humaines que nous avons soulevées.

**9.2** Dans l'ensemble, les travaux accomplis par la communauté depuis notre vérification de 1994 lui permettent de passer à l'action. Mais il reste des défis de taille à relever. La communauté devrait régler en priorité les questions découlant des changements survenus dans son profil démographique qui peuvent affaiblir ou compromettre la capacité du gouvernement en sciences et technologie. Dans ce contexte, la communauté devrait relever le double défi de recruter de jeunes scientifiques et technologues prometteurs et de maintenir en poste le personnel de grande réputation pour les encadrer. La communauté exige donc, et à juste titre, de nouvelles mesures de recrutement externe ainsi que les outils et les ressources nécessaires parce qu'elle pourrait devoir embaucher entre 2 500 et 3 300 employés au cours des cinq prochaines années afin de bâtir un effectif scientifique et technologique tant renouvelé que rajeuni.

**Contexte et autres observations**

**9.3** Au 31 mars 1998, l'administration fédérale comptait près de 20 000 employés techniques et scientifiques répartis dans des ministères, des organismes, des sociétés d'état et des établissements de recherche; ces employés étaient affectés aux activités en sciences naturelles et génie (ci-après la « communauté scientifique et technologique »).

**9.4** La communauté scientifique et technologique contribue d'une façon importante à l'application de la stratégie fédérale en matière de sciences et de technologie. Publiée en 1996, la stratégie met l'accent sur la création d'emplois et la croissance économique, l'amélioration de la qualité de vie des Canadiens et l'avancement des connaissances.

**9.5** La réduction des dépenses et des effectifs au sein de l'administration fédérale a transformé le profil de la communauté scientifique et technologique et a empiré les problèmes de recrutement et de renouvellement de longue date. Le changement survenu dans le profil de l'âge présente un grand défi pour l'avenir de la communauté. Non seulement les scientifiques et les technologues les plus âgés et les plus expérimentés ont quitté le gouvernement depuis 1994, mais les plus jeunes et les plus prometteurs aussi.

**9.6** À la suite de notre vérification en 1994 de la gestion du personnel scientifique, la communauté s'est mobilisée pour élaborer un cadre de gestion et un plan directeur axé sur les résultats en vue de solutionner les problèmes soulevés, tels que la nécessité d'aborder la gestion du personnel scientifique sous un angle plus stratégique, de veiller de manière plus systématique au renouvellement du personnel scientifique et d'assurer le maintien du capital de compétences et de connaissances dans les établissements de recherche. Des groupes de travail ont été mis sur pied pour étudier des questions importantes liées aux ressources humaines. Ils ont recommandé entre autres, au Comité directeur supérieur des ressources humaines en sciences et technologie, l'adoption de nouveaux mécanismes et la nécessité d'élaborer des stratégies en ressources humaines pour améliorer la gestion du personnel scientifique et technologique dans les ministères et les organismes à vocation scientifique.

# La Stratégie du poisson de fond de l'Atlantique

## Suivi

## Chapitre 8 – Points saillants

**8.1** Nous croyons que les efforts déployés par le gouvernement, afin de donner suite aux recommandations du chapitre 16 de notre rapport de 1997 sur la Stratégie du poisson de fond de l'Atlantique, sont satisfaisants.

**8.2** De nouvelles mesures de restructuration et d'adaptation des pêches sont mises en oeuvre. Contrairement à ce que nous avions constaté en 1997, les critères d'admissibilité aux nouvelles mesures sont clairs, logiques et applicables. Le cadre de reddition de comptes établi pour les mesures corrige les faiblesses que nous avions observées à l'époque : les responsabilités des organisations sont maintenant définies, il existe un plan stratégique global et un mécanisme officiel de coordination est prévu.

**Contexte et autres observations**

**8.3** La Stratégie du poisson de fond de l'Atlantique (1994–1998) avait pour but de restructurer l'industrie de la pêche dans le Canada atlantique, de façon à ce qu'elle devienne viable sur le plan économique et durable sur le plan environnemental.

**8.4** Près de 1,9 milliard de dollars lui ont été consacrés. La majorité de ces fonds ont été utilisés aux fins du soutien du revenu des quelque 40 000 pêcheurs et travailleurs d'usine touchés par le moratoire sur la pêche au poisson de fond.

**8.5** En octobre 1997, nous pressions le gouvernement de faire un examen des conséquences des décisions prises dans le cadre de la Stratégie, afin d'en tirer des leçons utiles.

**8.6** Ce suivi porte sur les progrès réalisés pour donner suite à nos recommandations de 1997. Certains de ces progrès se situent dans le contexte de la Stratégie et d'autres, dans celui des mesures de restructuration et d'adaptation des pêches qui ont été annoncées en juin 1998.

**8.7** Développement des ressources humaines Canada (DRHC) a terminé l'évaluation du volet Adaptation de la main-d'oeuvre de la Stratégie. Le Ministère a aussi revu la durée de l'admissibilité des participants à la Stratégie. Les ministères disposent maintenant d'une information abondante sur le profil des populations visées par les nouvelles mesures, ce qui contraste sensiblement avec la situation qui prévalait lors de l'élaboration de la Stratégie.

**8.8** À notre avis, la façon ordonnée dont les nouvelles mesures de restructuration et d'adaptation des pêches sont mises en oeuvre représente des progrès satisfaisants.

# La Stratégie du poisson de fond de l'Atlantique

## Les contributions et les subventions

## Chapitre 7 – Points saillants

**7.1** Nous avons peu d'assurance que toutes les contributions accordées en vertu de la Stratégie du poisson de fond de l'Atlantique (la Stratégie ou LSPA) ont été utilisées aux fins prévues. Celles-ci faisaient partie des mesures actives d'adaptation au marché du travail que gérait Développement des ressources humaines Canada (DRHC).

**7.2** Bon nombre des lacunes observées ont trait à l'absence de rigueur dans l'évaluation des demandes de contribution et la conclusion des accords, ainsi qu'à l'absence de surveillance de la part du Ministère.

**7.3** De nombreux dossiers ne contenaient pas de demandes de contribution. Dans d'autres cas, les demandes n'étaient pas suffisamment élaborées pour permettre une bonne évaluation. Certains accords comportaient des données incomplètes, incluaient des coûts inadmissibles ou ne correspondaient pas à la mesure en vertu de laquelle le projet était financé. Il y avait peu d'indices montrant que des visites avaient été faites sur les lieux des projets pour examiner l'état des dépenses.

**Contexte et autres observations**

**7.4** La Stratégie du poisson de fond de l'Atlantique, en vigueur du 16 mai 1994 au 29 août 1998, comportait des mesures pour venir en aide aux personnes touchées par le moratoire sur la pêche au poisson de fond. Environ 150 millions de dollars sur les 1,9 milliard de dollars affectés à la Stratégie ont été consacrés à des mesures actives d'adaptation au marché du travail, telles que la formation, l'aide à la mobilité, les subventions salariales et les primes à l'emploi.

**7.5** Lors de notre vérification de la Stratégie du poisson de fond de l'Atlantique, publiée au chapitre 16 de notre rapport d'octobre 1997, nous n'avions pas couvert ces dépenses. À la suite de la publication de ce rapport, le Comité permanent des pêches et des océans nous a demandé de les vérifier.

**7.6** Notre bureau et le Bureau de vérification interne (BVI) de Développement des ressources humaines Canada se sont entendus pour que ce dernier effectue la vérification des subventions et des contributions accordées en vertu de la Stratégie. Nous avons suivi de près et vérifié les travaux du BVI afin que nous puissions en utiliser les résultats aux fins de ce chapitre.

**7.7** La Stratégie a entraîné, dans un court laps de temps, une augmentation de la charge de travail des agents. En effet, quelque 40 000 participants se sont ajoutés et cela a obligé le Ministère à cerner et à approuver un nombre sans précédent de projets.

**7.8** Plusieurs contributions ont été accordées pour des projets qui n'étaient pas clairement reliés à la Stratégie. Plus de la moitié des accords ont été signés après le début des projets. On a remboursé des dépenses sans justification. Pour plus de la moitié des projets examinés, on n'a pu déterminer si les dossiers avaient été fermés bien que la plupart de ces projets aient été terminés depuis plus de deux ans.

**Dans l'ensemble, Développement des ressources humaines Canada est d'accord avec les constatations de la vérification et reconnaît qu'un certain nombre de questions et de préoccupations importantes sont soulevées dans le chapitre. Les mesures prises pour répondre à ces questions incluent l'élaboration de nouvelles politiques et procédures, la formation des gestionnaires et du personnel et l'obtention de ressources nécessaires pour de nouvelles initiatives en vue d'assurer une surveillance adéquate des projets.**

**6.5** Il pourrait y avoir des lacunes dans la qualité de l'information financière et d'autres données. La crédibilité des rapports sur la reddition de comptes dépend de la comparabilité, de l'exactitude et de la vérifiabilité de l'information transmise par toutes les parties, et non seulement par celles qui ont négocié le programme général (provinces, territoires et gouvernement fédéral), mais aussi par les responsables de la conception et de la mise en oeuvre des sous-programmes (municipalités de l'Ontario et Premières nations). Il s'agit également d'un défi à relever pour les bureaux de vérification qui fournissent des services aux partenaires dans le cadre du programme.

**6.6** Nous croyons que les principaux éléments des rapports sur les résultats de la PNE destinés au public sont la transparence et l'information adéquate, c'est-à-dire que :

- les moyens voulus sont pris pour que l'information communiquée soit crédible et, du moins en ce qui concerne l'information financière, vérifiable;
- les données permettent de déterminer si les objectifs généraux du programme sont atteints;
- les données permettent de comparer les résultats des différentes approches provinciales.

Il faut aussi déterminer clairement à qui reviennent toutes ces responsabilités et qui donnera l'assurance qu'elles ont été assumées. De plus, les responsables doivent avoir la capacité de mener à bien ce travail.

**Le Ministère a déclaré que le présent chapitre contribuera à ses travaux ayant pour objet d'instaurer un régime redditionnel de la PNE. On est à régler certaines des questions que nous avons soulevées dans notre étude; les autres seront abordées par le gouvernement fédéral en sa capacité de coprésident du groupe de travail fédéral-provincial-territorial sur la PNE.**

## Aide à l'employabilité des personnes handicapées

**6.7** L'Aide à l'employabilité des personnes handicapées (AEPH) est l'autre programme né des discussions fédérales-provinciales de 1997–1998 sur l'union sociale. L'objectif de ce programme à frais partagés moitié-moitié est d'aider les personnes handicapées à surmonter les obstacles qu'elles rencontrent sur le marché du travail. L'AEPH appuie les programmes et les services provinciaux et territoriaux qui aident aussi bien les personnes handicapées à faire les premières démarches vers l'amélioration de leurs compétences qu'à demeurer sur le marché du travail. À ce stade préliminaire de la mise en oeuvre du programme, notre intérêt est de veiller à ce que le nécessaire soit fait pour que l'information fournie par chaque partenaire sur ses dépenses et ses propres programmes soit crédible et permette de comparer les différentes approches et les évaluations de l'efficacité du programme dans son ensemble.

### Contexte et autres observations

**6.8** Chaque province a signé une entente avec le gouvernement fédéral. Ensemble, les ententes illustrent plusieurs des éléments d'un mécanisme de collaboration dont fait état le chapitre 5 de notre rapport de 1999. C'est ainsi que, par exemple, les gouvernements se sont entendus sur un processus de planification participative concertée et sur l'évaluation des résultats du programme.

**6.9** Développement des ressources humaines Canada (DRHC) et ses partenaires provinciaux ont entrepris de régler les questions de mise en oeuvre dans un esprit de collaboration. Les provinces se sont engagées à présenter annuellement au Ministère des rapports sur la reddition de comptes mais rien n'a été défini jusqu'à présent en ce qui a trait à la forme, au fond ou au délai de présentation de ceux-ci, et aucun objectif ou cible précis n'a été encore été fixé pour une période donnée. Aussi recommandons-nous que DRHC établisse un bref rapport annuel général sur l'AEPH, qui comparerait, pour tous les partenaires, les activités, les dépenses, les extrants et le rendement du programme.

**6.10** Les partenaires ont encore un important travail à réaliser. Lorsqu'autant d'administrations sont mises en présence, les responsables de la supervision et de la vérification devraient veiller à ce que la qualité de l'information financière et de l'information sur le rendement soit préservée et améliorée.

**Le Ministère a déclaré que la présente étude de cas contribuera aux travaux qu'il mène avec les provinces. Il souscrit en principe à la recommandation de produire un rapport annuel général sur les dépenses engagées pour l'AEPH et le rendement du programme. Il tient à signaler cependant que l'AEPH ne constitue qu'une partie de l'ensemble des programmes pour les personnes handicapées.**

# Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints

## Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées

## Chapitre 6 – Points saillants

### Prestation nationale pour enfants

**6.1** La Prestation nationale pour enfants (PNE) représente une nouvelle forme de mécanisme de collaboration entre les provinces (sauf le Québec) et territoires et le gouvernement fédéral. Un grand défi, pour tous ceux qui ont un rôle à jouer dans la PNE, est de rassurer le contribuable sur le fait que les fonds sont dépensés aux fins voulues, avec un souci d'économie et d'efficience et avec des moyens appropriés pour mesurer l'efficacité du programme et en faire rapport. Étant donné les nombreux gouvernements en présence, il est nécessaire de respecter les champs de compétence des différentes parties. Au stade actuel de la mise en oeuvre de la PNE, la reddition de comptes doit être, à tout le moins, aussi rigoureuse qu'elle le serait si le programme relevait d'un seul ordre de gouvernement.

**Contexte et autres observations**

**6.2** L'objectif de la PNE est de réduire l'étendue de la pauvreté chez les familles qui ont des enfants et d'accroître la participation des parents au marché du travail. Le programme de la PNE ne s'appuie pas sur une nouvelle loi, un contrat ou une entente de contribution. Il consiste à majorer la Prestation fiscale canadienne pour enfants (le supplément de la PNE) au profit des familles à faible revenu; cet investissement, qui a été d'environ 850 millions de dollars en 1998, totalisera 1,7 milliard de dollars en 2000. Pour leur part, les administrations qui versent des prestations d'aide sociale aux familles peuvent réduire ces paiements d'un montant équivalent à l'augmentation de la prestation fiscale. Elles ont convenu de réinvestir les économies réalisées dans des programmes dont les objectifs ont été fixés d'un commun accord et qui profitent aux familles pauvres avec enfants.

**6.3** Il est nettement ressorti des négociations qui ont débouché sur la PNE que les partenaires se sont entendus sur les objectifs généraux des volets fédéral et provincial du programme. Ils se sont aussi engagés à une nouvelle forme conjointe de reddition de comptes au public. Fait distinctif, il ne revient pas à un ordre de gouvernement plus qu'à un autre de rendre compte des résultats. Chacun est responsable du programme dans son ensemble.

**6.4** Au cours des premières années, avant que les résultats des évaluations soient connus, ce sera tout un défi de démontrer que la PNE a contribué à réduire l'étendue de la pauvreté et à accroître la participation de ses bénéficiaires au marché du travail. En évaluant les progrès accomplis, le rapport sur la reddition de comptes pour la PNE devra aussi préciser les cas où des compromis ont été faits entre les objectifs et en signaler les répercussions. Autrement, les lecteurs du rapport pourraient avoir l'impression que tous les objectifs peuvent être atteints simultanément.

## Chapitre 5 – Points saillants

**5.1** Les mécanismes de collaboration constituent une solution de rechange aux moyens traditionnels utilisés jusqu'ici par les ministères fédéraux et les sociétés d'État pour exécuter les programmes et fournir les services — solution qui vise à être plus innovatrice, plus rentable et plus efficiente. Lorsqu'ils utilisent les mécanismes de collaboration, l'administration fédérale, les autres paliers de gouvernement et les organisations des secteurs privé et bénévole conviennent de partager les pouvoirs et les autorisations liés à la prise des décisions concernant l'exécution des programmes et la prestation des services.

**5.2** Le recours croissant à ces mécanismes et, de ce fait, l'engagement accru de fonds publics exigent d'accorder, par conséquent, plus d'attention aux risques prévisibles, notamment : l'existence de mécanismes mal conçus, situation minant les chances de succès du projet; des partenaires qui ne remplissent pas leurs engagements; le peu d'attention accordé à la protection de l'intérêt public; une transparence insuffisante; une reddition de comptes inadéquate.

**5.3** Le souci de l'intérêt public, une reddition de comptes efficace et une plus grande transparence sont, à notre avis, des éléments structurels de base de ces mécanismes. Nous présentons, dans le présent chapitre, une liste de questions pouvant être utiles aux parlementaires lorsqu'ils auront à évaluer les mécanismes de collaboration.

**Contexte et autres observations**

**5.4** Dans leur quête d'une plus grande efficience, l'administration fédérale et ses partenaires doivent toujours avoir en tête, et cela est très important, que servir l'intérêt public est le but premier de chaque mécanisme de collaboration et que les services fournis au public doivent être transparents, justes et équitables.

**5.5** Rendre compte de manière efficace, dans le cadre d'une structure de collaboration, est une démarche plus complexe. L'administration fédérale doit rendre compte au Parlement de l'utilisation des autorisations et des fonds fédéraux, rendre compte à ses partenaires de l'exécution de ses engagements propres et, enfin, avec ses partenaires, rendre compte au public des résultats obtenus grâce aux mécanismes de collaboration. À notre avis, cette obligation redditionnelle partagée signifie que plus d'intervenants ont à rendre compte et que cela ne réduit en rien l'obligation redditionnelle du gouvernement.

**5.6** Le recours aux mécanismes de collaboration pour l'exécution des programmes et la prestation des services au public exige souvent une transparence plus grande que celle qu'impose la prestation traditionnelle de services par un ministère. La formule du partenariat peut rendre plus difficile pour les citoyens l'identification des responsables. Par conséquent, l'administration fédérale doit communiquer le plus ouvertement possible l'information sur les ententes, les décisions et les résultats des mécanismes.

**5.7** Le Secrétariat du Conseil du Trésor nous a fait part de son intention de continuer à fournir des avis et à élaborer des lignes directrices sur les mécanismes de collaboration s'adressant aux ministères et aux organismes fédéraux, avis et lignes directrices qui porteront sur bon nombre des enjeux que nous présentons dans le présent chapitre.

crustacés, des décisions sur l'utilisation de la ressource qui sont incompatibles avec le concept d'une industrie économiquement viable.

**4.7** La cogestion, destinée à accroître le rôle, les responsabilités et la reddition de comptes de l'industrie en matière de gestion des pêches, est une pièce maîtresse de la stratégie des pêches de l'avenir du Ministère. Le fait que les participants assument de plus grandes responsabilités pour leur industrie constitue un élément important de la durabilité. Les pouvoirs sont cependant fort peu partagés. Selon nous, la façon dont le Ministère aborde actuellement la cogestion souffre de lacunes.

**4.8** Le Ministère a reconnu l'existence de lacunes dans le cadre de gestion des pêches figurant dans l'actuelle *Loi sur les pêches*. Aucune modification corrective n'a toutefois été présentée à ce jour à la Chambre des communes.

**On trouvera dans le présent rapport les réponses de Pêches et Océans à nos recommandations. Soit que le Ministère accepte de donner suite au rapport, soit qu'il indique que des mesures ont été prises pour mettre en oeuvre trois de nos quatre recommandations. Le Ministère n'a pas manifesté son intention de donner suite pour le moment à notre recommandation sur la cogestion.**

# Pêches et Océans

# La gestion durable des stocks de mollusques et de crustacés de l'Atlantique

## Chapitre 4 – Points saillants

**4.1** En octobre 1997, nous avons fait rapport des problèmes liés à la gestion, par Pêches et Océans, des pêches du poisson de fond de l'Atlantique. Dans la présente vérification, nous avons constaté que bon nombre de ces problèmes sévissent également dans la gestion, par le Ministère, des pêches des mollusques et crustacés de l'Atlantique. Ainsi, nous avons remarqué que la capacité de capture s'accroît et que la participation des pêcheurs aux pêches des mollusques et crustacés est encouragée par la délivrance de permis de pêche à accès libre. En outre, nous avons relevé des trous dans l'information utilisée pour prendre des décisions sur la ressource ainsi que des lacunes dans le contrôle et la surveillance. Les répercussions globales de ces problèmes ne sont pas évidentes, car la plupart des pêches des mollusques et crustacés enregistrent actuellement de fortes valeurs au débarquement. Toutefois, à notre avis, ce sont là des préoccupations majeures sur lesquelles il faut se pencher afin que les pêches des mollusques et crustacés soient gérées durablement.

**4.2** Les décisions du Ministère ont une forte incidence sur les représentants de l'industrie des pêches et sur les collectivités qui en vivent. Faute de politique sur les pêches qui reflète entièrement les concepts entourant la durabilité, les décisions sont prises au coup par coup et de façon décousue plutôt qu'en fonction d'un cadre global visant une pêche durable. Dans un processus ouvert et transparent, où des principes clairement définis et uniformément appliqués guident la prise de décisions, tous les intervenants auraient l'assurance que leurs intérêts sont pris en compte et que la ressource est protégée à long terme.

**4.3** Nous avons noté que certaines décisions sur l'utilisation de la ressource ne sont pas conformes aux objectifs que le Ministère s'est fixés pour gérer les pêches. En matière de pêches, comme nous l'avons signalé en octobre 1997, le gouvernement doit préciser les objectifs dans la loi. Le Ministère doit mettre en oeuvre un cadre des pêches durables intégrant les facteurs interdépendants à la fois biologiques, économiques et sociaux qui touchent les pêches.

**Contexte et autres observations**

**4.4** Dans les années 90, le Canada atlantique a connu un quasi-effondrement de sa pêche commerciale du poisson de fond (morue, aiglefin, goberge, flétan et divers poissons plats). Par contre, pendant la même période, la valeur des débarquements des mollusques et crustacés (homard, pétoncle, crabe des neiges et crevette) a généralement augmenté. En 1997, la valeur de tous les mollusques et crustacés débarqués au Canada atlantique s'est élevée à 920 millions de dollars, soit 81 p. 100 de celle de tous les débarquements de la pêche commerciale de la région.

**4.5** Le Ministère a déclaré dans ses principaux documents redditionnels déposés au Parlement que son objectif est la conservation, c'est-à-dire la protection de la capacité productive de la ressource naturelle essentielle à la pêche. En outre, il a dit viser un objectif économique mais sans indiquer les résultats escomptés. Par ailleurs, le Ministère a décliné toute responsabilité à l'égard des enjeux sociaux. Or, nous avons constaté que les facteurs sociaux et économiques influencent largement la plupart des décisions sur l'utilisation de la ressource dans le secteur des pêches des mollusques et crustacés.

**4.6** Parmi les objectifs de la stratégie ministérielle des « pêches de l'avenir » il y a celui d'assurer à terme des pêches économiquement viables et autonomes. Toutefois, ces objectifs ne sont pas entièrement pris en compte dans les rapports du Ministère au Parlement. Nous avons relevé, dans le secteur des pêches des mollusques et

**3.6** La Politique visant à informer les utilisateurs sur la qualité des données et la méthodologie est claire et bien structurée, mais l'organisme ne l'applique pas de façon uniforme. Par conséquent, les utilisateurs ne sont pas toujours informés adéquatement des forces et des limites des statistiques. Nous avons observé aussi que Statistique Canada attache une grande importance à la qualité des statistiques dans ses engagements envers le Parlement. Cependant, le dernier *Rapport sur le rendement* de l'organisme, déposé en octobre 1998, fournit une information incomplète sur la qualité des statistiques produites.

**Les réponses de Statistique Canada à nos recommandations sont incorporées au présent chapitre. Pour six des huit recommandations, l'organisme accepte de prendre des mesures ou fait remarquer que des initiatives sont en cours. En ce qui concerne les deux autres recommandations, Statistique Canada en approuve l'objectif et indique qu'il examinera ces questions de manière plus approfondie.**

# Statistique Canada

## La gestion de la qualité des statistiques

## Chapitre 3 – Points saillants

**3.1** Statistique Canada s'est engagé à produire des statistiques de grande qualité. Il a mis sur pied un large éventail de systèmes et de pratiques pour assurer la qualité de ses programmes statistiques et maintenir un climat qui encourage le souci de la qualité dans tout l'organisme. Cependant, il doit mieux documenter la qualité des statistiques qu'il produit et communiquer de l'information à ce sujet, tant au sein de l'organisme qu'à l'extérieur. Statistique Canada doit mieux intégrer ses nombreux systèmes et pratiques liés à la qualité et adopter un mode de documentation plus rigoureux.

**3.2** Statistique Canada utilise un certain nombre de mécanismes d'évaluation de la qualité qui ont été établis, mais ceux-ci ne sont pas appliqués de façon uniforme dans les différents programmes. Nous avons conclu que les mécanismes utilisés à l'heure actuelle, pris individuellement ou dans leur ensemble, ne fournissent pas une information transparente et systématique sur la pertinence des systèmes et des pratiques de gestion de la qualité des programmes statistiques de l'organisme ou sur la qualité réelle des données produites.

**Contexte et autres observations**

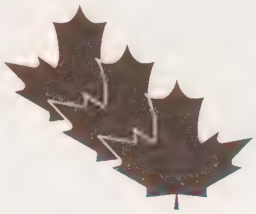
**3.3** Statistique Canada est chargé de recueillir, de compiler, d'analyser et de publier des données statistiques sur les conditions économiques, sociales et générales du Canada et des Canadiens. Les statistiques qu'il produit appuient l'élaboration, la mise en oeuvre et l'évaluation des politiques, des programmes et des prises de décisions dans tous les secteurs. Elles aident à prendre des décisions éclairées au sujet de questions telles que décider où vivre, quelle carrière poursuivre et comment voter. L'organisme est fort respecté par ses pairs et jouit d'une réputation internationale inégalée au chapitre de l'indépendance, de l'innovation et de la qualité.

**3.4** La rapidité des changements sociaux, économiques et autres accroît la demande de données statistiques fiables et objectives sur un large éventail de questions. Au fur et à mesure que la demande et l'utilisation des statistiques augmentent, leur qualité devient de plus en plus importante. Statistique Canada a déterminé que ses systèmes et pratiques de gestion de la qualité devaient pouvoir assurer des données répondant à six critères : la pertinence, l'exactitude, l'actualité, l'accessibilité, l'intelligibilité et la cohérence.

**3.5** En vue de notre vérification, l'organisme a effectué des autoévaluations de quatre grandes enquêtes. La conclusion quant au caractère adéquat de la gestion de la qualité en général a été positive pour chaque autoévaluation. Le travail a été bien planifié et exécuté. Nous avons conclu que dans trois enquêtes sur quatre, les autoévaluations fournissent l'assurance raisonnable que les systèmes et les pratiques de gestion de la qualité sont adéquats. Dans le dernier cas, cependant, nous avons conclu que les faiblesses décelées et les recommandations faites sont plus importantes que ne le laisse croire l'autoévaluation et méritent que la haute direction s'en préoccupe.

**2.8** Le Ministère peut mieux cibler ses vérifications afin de détecter les revenus non déclarés et d'établir de nouvelles cotisations. De plus, la loi offre des possibilités d'améliorer les mesures actuelles visant à dissuader les contribuables de participer à l'économie clandestine.

**Revenu Canada a convenu de prendre des mesures pour donner suite à nos recommandations.**



# Revenu Canada

## L'Initiative visant l'économie clandestine

## Chapitre 2 – Points saillants

**2.1** Revenu Canada a indiqué que les répercussions fiscales (les impôts et les taxes qui résultent des mesures d'exécution) de ses activités de lutte contre l'économie clandestine se chiffraient à 2,5 milliards de dollars sur cinq ans; toutefois, ces chiffres englobent les résultats tant de ses programmes d'exécution réguliers que de l'Initiative visant l'économie clandestine (l'Initiative). Les répercussions fiscales réellement attribuables à la détection de revenus non déclarés par les 1 000 employés affectés aux activités de vérification liées à l'Initiative sont bien inférieures aux 500 millions de dollars signalés.

**2.2** Il est difficile de déterminer la mesure dans laquelle l'Initiative permet de lutter contre l'économie clandestine, parce que le Ministère ne mesure ni ne communique les résultats de l'ensemble des activités liées à l'Initiative et parce qu'il ne mesure ni ne communique les changements que ces activités ont provoqués dans le comportement des contribuables.

**2.3** Revenu Canada doit évaluer ce que le marketing social pourrait faire pour sensibiliser le public aux coûts sociaux des impôts et des taxes impayés et l'amener à appuyer ses activités de lutte contre l'économie clandestine. Les sondages révèlent qu'un nombre alarmant de Canadiens et de Canadiennes seraient prêts à participer à l'économie clandestine. Le Ministère doit aussi renforcer les activités qui favorisent l'observation volontaire par les entreprises.

**2.4** L'économie clandestine constitue un problème complexe et difficile à régler, et les impôts et les taxes perdus constituent une somme importante. C'est un problème qui exige une attention continue et une énergie soutenue de la part de Revenu Canada et de l'ensemble des Canadiens et des Canadiennes.

**Contexte et autres observations**

**2.5** L'économie clandestine donne naissance à l'évasion fiscale et représente des pertes annuelles en recettes fiscales fédérales et provinciales estimées à 12 milliards de dollars. L'évasion fiscale ne constitue pas un crime sans victime. Elle inflige un désavantage concurrentiel aux entreprises honnêtes et, dans certains cas, elle les oblige à fermer. Si on lui laissait libre cours, l'économie clandestine pourrait entraîner une perte de confiance dans l'équité du régime fiscal du Canada. Elle oblige aussi les contribuables honnêtes à assumer le fardeau fiscal de ceux qui trichent.

**2.6** En 1993, Revenu Canada a annoncé une nouvelle initiative pour combattre l'économie clandestine : il a affecté 200 employés à son Programme visant les non-déclarants et les non-inscrits et 1 000 employés aux vérifications des petites entreprises où l'économie clandestine est la plus fréquente. Trente-cinq pour cent du personnel du Ministère affecté à la vérification des petites et moyennes entreprises participe maintenant à des activités de vérification liées à l'Initiative visant l'économie clandestine.

**2.7** L'Initiative, telle qu'elle avait été planifiée, constituait, à notre avis, un moyen équilibré de combattre l'évasion fiscale dans l'économie clandestine. Elle comportait des activités pour promouvoir l'observation volontaire par les petites entreprises, comme des visites d'entreprises dans les collectivités et des consultations auprès d'associations d'entreprises. Elle prévoyait aussi faire participer d'autres ministères fédéraux, les administrations provinciales et municipales et des organisations du secteur privé à des programmes d'échange d'information en vue de mieux faire face à l'économie clandestine.

**1.7** En vertu de la *Loi sur le système correctionnel et la mise en liberté sous condition*, la mise en liberté dans la collectivité peut revêtir plusieurs formes : la semi-liberté (six mois avant la mise en liberté conditionnelle totale); la mise en liberté conditionnelle totale (au tiers de la peine) et la mise en liberté d'office (après les deux tiers de la peine). Certains délinquants seront maintenus en incarcération jusqu'à l'expiration de leur peine.

**1.8** Un changement récent permet aux délinquants qui purgent leur première peine sous responsabilité fédérale, mais n'ont pas été reconnus coupables d'un crime violent ou d'une infraction grave en matière de drogue, d'être libérés sous le régime de la semi-liberté à un sixième de leur peine, dans le cadre de la procédure d'examen expéditif.

**1.9** Nos précédents travaux de vérification, en 1994 et 1996, ont montré des lacunes systémiques de la gestion des activités de réinsertion sociale du Service. Ces vérifications ont mis en évidence des zones de préoccupation telles que les normes de travail, les procédures d'assurance de la qualité, l'information sur le rendement, la mise en oeuvre de changements fondamentaux et les leçons à tirer des réussites et des échecs. Le présent chapitre passe en revue toutes ces questions.

**1.10** Conformément à l'engagement que nous avons pris devant le Comité des comptes publics en avril 1998, nous avons examiné les changements apportés par le Service à l'Échelle de classement par niveau de sécurité et vérifié si le Service avait mis en oeuvre le nouvel instrument de reclassement de sécurité. Nous avons constaté que les changements apportés à l'Échelle de classement par niveau de sécurité réduisaient les dérogations tout en n'ayant qu'une incidence minimale sur le nombre d'évasions. Le Service vient de mettre en oeuvre l'outil de reclassement tel qu'il s'y était engagé.

**1.11** En plus de leurs responsabilités à l'égard de la sécurité dans les établissements, les agents de correction supérieurs continuent à ne donner suite que sporadiquement à leurs obligations à l'égard de la réinsertion sociale des délinquants, une lacune qui prive d'un apport essentiel le rapport d'évaluation des délinquants déposé devant la Commission nationale des libérations conditionnelles. Le Service a mis un projet sur pied pour résoudre cette question.

**1.12** Bien que le Service ait assuré une continuité entre les programmes de réadaptation en établissement et dans la collectivité, sa capacité d'offrir ces programmes dans la collectivité ne lui permet pas de répondre aux besoins de l'heure. La recherche indique que bon nombre des programmes d'intervention qui tentent de répondre aux besoins criminogènes des délinquants sont plus efficaces lorsqu'ils sont offerts dans la collectivité.

**Les réponses du Service correctionnel à nos recommandations sont incluses dans le chapitre. Le Service est d'accord avec les recommandations et dans ses réponses, il indique son engagement de prendre les mesures correctives nécessaires.**

# Service correctionnel Canada

## La réinsertion sociale des délinquants

## Chapitre 1 – Points saillants

**1.1** Service correctionnel Canada (le Service) a fait des efforts concertés pour donner suite à nos observations de 1994 et de 1996 concernant la gestion des activités de réinsertion sociale des délinquants dont il a la garde. Toutefois, certains secteurs importants exigent d'autres améliorations.

**1.2** Le Service est dans la bonne voie. Il a pris récemment des initiatives de changement dans plusieurs secteurs. Il a notamment renforcé la capacité de son administration centrale à diriger et à coordonner, à l'échelle nationale, les activités de réinsertion sociale des délinquants; il a mis en oeuvre un important projet visant à rationaliser ses activités de réinsertion sociale; il s'est mérité une notoriété internationale pour certains de ses programmes de réadaptation des délinquants; enfin, il a amélioré sa capacité de mesurer les résultats et le rendement de ses activités de réinsertion sociale.

**1.3** En dépit des progrès réalisés, des améliorations sont toujours de mise dans certains secteurs clés; on souhaiterait notamment :

- une acquisition plus rapide des documents officiels requis pour l'évaluation initiale des délinquants;
- une préparation plus rapide des cas en vue de respecter la première date de mise en liberté conditionnelle du délinquant;
- une stratégie opérationnelle claire en matière de programmes d'emploi;
- des rapports de meilleure qualité sur la réinsertion sociale des délinquants à l'intention de la Commission nationale des libérations conditionnelles;
- un meilleur respect des normes nationales régissant la fréquence des contacts avec les délinquants dans la collectivité.

**Contexte et autres observations**

**1.4** Le Service correctionnel compte au nombre de ses principales responsabilités la réinsertion sociale sécuritaire des délinquants dans la collectivité. Cela comprend l'évaluation des besoins et du risque que présente le délinquant, la préparation du délinquant en vue de sa mise en liberté; la réévaluation de l'à-propos de la mise en liberté du délinquant et la formulation d'une recommandation à la Commission nationale des libérations conditionnelles; l'accès pour les délinquants mis en liberté dans la collectivité à des mécanismes de surveillance et à des programmes jusqu'à l'expiration de leur peine.

**1.5** Les dépenses globales de réinsertion sociale ont augmenté de 38 millions de dollars (13 p. 100) au cours des trois derniers exercices. Service correctionnel Canada consacre environ 329 millions de dollars ou 28 p. 100 de ses dépenses totales à la réinsertion sociale des délinquants.

**1.6** En 1997–1998, on comptait 13 449 délinquants incarcérés dans des établissements fédéraux et 8 744 délinquants dans la collectivité dont la plupart étaient surveillés par des agents de libération conditionnelle du Service correctionnel. Jusqu'à tout récemment, la proportion des délinquants sous responsabilité fédérale, détenus en établissement ou faisant l'objet d'une surveillance dans la collectivité, est restée passablement constante. Toutefois, en 1997–1998, le nombre de délinquants sous surveillance communautaire a augmenté d'environ 500.

Page

Chapitre

18 Travaux publics et Services gouvernementaux Canada – Autres formes de prestation de services : l'impartition des services de gestion immobilière 34

19 Portefeuille de l'Industrie – L'investissement dans l'innovation 36

**Points saillants – Novembre 1999**

Chapitre

20 Pêches et Océans – Le saumon du Pacifique : la durabilité des pêches 38

21 La Stratégie d'information financière : l'état de préparation des ministères 40

22 Les caractéristiques des organismes de recherche bien gérés 42

23 La régie en partenariat : la reddition de comptes menacée 43

24 Le Fonds canadien d'adaptation et de développement rural : un exemple de régie en partenariat 45

25 La préparation à l'an 2000 : l'étape finale 46

26 Défense nationale – La conduite appropriée des affaires publiques 48

27 Défense nationale – Différents modes de prestation de services 50

28 Agence canadienne de développement international – Les contrôles financiers des projets 52

29 L'appui fédéral à la prestation des soins de santé 53

30 Les marchés de services professionnels conclus avec un fournisseur unique au moyen de préavis d'adjudication de contrat 55

31 Ministère des Affaires étrangères et du Commerce international – L'exécution de projets d'investissement dans quatre missions 57

32 Suivi des recommandations formulées dans des rapports antérieurs 59

33 Autres observations de vérification 60

# Table des matières


Page

**Points saillants – Avril 1999**

Chapitre

| | | |
|---|---|---|
| 1 | Service correctionnel Canada – La réinsertion sociale des délinquants | 5 |
| 2 | Revenu Canada – L'Initiative visant l'économie clandestine | 7 |
| 3 | Statistique Canada – La gestion de la qualité des statistiques | 9 |
| 4 | Pêches et Océans – La gestion durable des stocks de mollusques et de crustacés de l'Atlantique | 11 |
| 5 | Les mécanismes de collaboration : les enjeux pour le gouvernement fédéral | 13 |
| 6 | Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints : Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées | 14 |
| 7 | La Stratégie du poisson de fond de l'Atlantique : les contributions et les subventions | 16 |
| 8 | La Stratégie du poisson de fond de l'Atlantique : suivi | 17 |
| 9 | La gestion du personnel scientifique et technologique : suivi | 18 |
| 10 | Affaires indiennes et du Nord Canada – Les modes de financement des Premières nations : suivi | 20 |

**Points saillants – Septembre 1999**

Chapitre

| | | |
|---|---|---|
| 11 | Portefeuille de l'Agriculture – Les frais d'utilisation | 21 |
| 12 | Agriculture et Agroalimentaire Canada – Une nouvelle moisson : la propriété intellectuelle dans la recherche | 23 |
| 13 | Défense nationale – Les matières dangereuses : la gestion des risques pour les employés et l'environnement | 25 |
| 14 | La surveillance de la santé nationale : les maladies et les blessures | 27 |
| 15 | La gestion d'une épidémie de toxi-infection alimentaire | 28 |
| 16 | Revenu Canada – Taxe sur les produits et services : le traitement des déclarations et la vérification | 30 |
| 17 | Le programme Travaux d'infrastructure Canada : Phase II et suivi de la vérification de la Phase I | 32 |

# Points saillants

## Possibilités d'économies

Améliorer l'efficience et l'efficacité des activités gouvernementales et se soucier davantage de l'économie sont des objectifs essentiels de notre mandat et des travaux que le Bureau effectue. Les répercussions de notre travail ne sont pas faciles à quantifier dans la plupart des cas, mais souvent, au cours de nos vérifications, nous trouvons des possibilités d'économies que nous pouvons chiffrer. Voici deux exemples récents :

**La gestion du matériel.** La valeur du matériel détenu par le gouvernement (outre l'argent et les biens immobiliers) dépasse les 50 milliards de dollars. Notre vérification de 1996 de la gestion de ce matériel a révélé plusieurs lacunes importantes, dont l'absence d'optimisation des ressources et des stocks trop importants. Nous avons recommandé, dans notre rapport, des mesures pour améliorer l'information sur le matériel détenu et combler les lacunes des systèmes de gestion du matériel. Dans le suivi de notre vérification, présenté en décembre dernier, nous avons constaté que les ministères avaient fait des progrès importants dans la gestion du matériel. Les réductions des niveaux de stocks depuis 1996 représentent plus de 480 millions de dollars, ce qui pourrait entraîner une baisse des coûts annuels de possession pouvant atteindre 100 millions de dollars.

**Paiements de péréquation.** Dans notre rapport de vérification de 1997 sur le Programme de péréquation, nous nous interrogions sur l'opportunité d'inclure les frais d'utilisation dans l'assiette fiscale constituant la base de la formule de péréquation. Les transferts de péréquation servent avant tout à réduire les disparités entre les capacités financières des provinces de fournir des services publics. La vérification a révélé que lorsque les services fournis par les gouvernements sont financés directement par des frais d'utilisation, les utilisateurs de ces services génèrent également la capacité de les fournir : il n'est pas nécessaire que les transferts financent les capacités des provinces dans ces cas. Si l'on examine cette question sous un autre angle, les sommes utilisées pour financer les activités payées par les utilisateurs ne sont pas disponibles pour financer les services publics généraux. Il n'existe pas de source de recettes, comme telle, à égaliser. Dans les réformes de la formule de péréquation présentées plus tôt cette année, à la suite de consultations avec les provinces, le gouvernement a modifié la formule de péréquation pour exclure la moitié des frais d'utilisation de l'assiette fiscale. Cette modification sera appliquée graduellement en cinq ans. Lorsqu'elle aura été pleinement appliquée, elle épargnera au gouvernement environ 350 millions de dollars par année.

*Pour en savoir davantage, voir les publications suivantes du BVG : Suivi des recommandations formulées dans des rapports antérieurs : Ministère des Finances – Le Programme de péréquation (chapitre 32 du Rapport de 1999); Suivi des recommandations formulées dans des rapports antérieurs : La gestion du matériel au gouvernement fédéral (chapitre 28 du Rapport de 1998); Ministère des Finances – Le Programme de péréquation (chapitre 8 du Rapport de 1997); La gestion du matériel au gouvernement fédéral (chapitre 23 du Rapport de 1996).*

## La surveillance de la santé nationale : le manque de collaboration nuit à l'efficacité

La surveillance de la santé est une fonction de base de la santé publique. Dans le chapitre 14 du Rapport, nous examinons la façon dont Santé Canada exerce ses activités de surveillance et de contrôle de la santé nationale et la façon dont ses activités appuient les autres éléments du cadre de santé publique.

Le chapitre montre des lacunes dans la surveillance nationale des maladies et des blessures qui, prises ensemble, ont de nettes répercussions nationales sur la santé publique. Premièrement, elles nuisent à la capacité de Santé Canada de déceler, de prévenir et de contrôler les risques pour la santé associés aux éclosions de maladies transmissibles et à d'autres menaces pour la santé. Deuxièmement, elles compromettent sa capacité de planifier et de mener à bien des programmes de santé publique qui traitent des causes et du traitement des maladies.

Dans un chapitre distinct mais connexe, nous présentons un cas qui illustre bon nombre des problèmes soulevés dans le chapitre 14. Nous étudions particulièrement comment des organismes fédéraux et provinciaux, comme la Direction des aliments de Santé Canada, son laboratoire de lutte contre la maladie (LLCM) et l'Agence canadienne d'inspection des aliments (ACIA), et les services de santé publique provinciaux et locaux sont intervenus lors d'une épidémie de toxi-infection alimentaire survenue en mars et en avril 1998.

Nous avons constaté que certains aspects importants de l'intervention lors de l'épidémie ont bien fonctionné, mais d'autres pas. Par exemple, les organismes visés n'ont pas coopéré pleinement. L'ACIA n'avait pas mis à la disposition des autorités sanitaires provinciales les renseignements que celles-ci avaient demandés pour faciliter leur enquête.

Il faut un cadre officiel où sont énoncés clairement les rôles et les responsabilités du LLCM par rapport à ceux des autres participants, afin d'orienter les mesures prises en réponse à des problèmes qui menacent la santé publique. De nombreuses personnes auraient pu être épargnées si les ministères fédéral et provinciaux de la Santé étaient intervenus plus rapidement.

*Pour en savoir davantage, voir les publications suivantes du BVG : La surveillance de la santé nationale : les maladies et les blessures (chapitre 14 du Rapport de 1999); La gestion d'une épidémie de toxi-infection alimentaire (chapitre 15 du Rapport de 1999); L'appui fédéral à la prestation des soins de santé (chapitre 29 du Rapport de 1999).*

## Le bogue du millénaire : il faut demeurer vigilant

Le problème du passage à l'an 2000, engendré par l'indication de l'année par un code de deux chiffres (connu également sous le nom de bogue du millénaire), préoccupe l'industrie et les gouvernements du monde entier. Les coûts pour régler ce problème à l'échelle planétaire sont évalués à 800 milliards de dollars américains. En août 1999, le gouvernement fédéral estimait à 2,2 milliards de dollars le coût de ses projets de préparation à l'an 2000. Selon le Secrétariat du Conseil du Trésor, les coûts totaux pourraient atteindre 2,5 milliards de dollars. Cependant, comme l'industrie et le gouvernement dépendent largement des systèmes informatiques, les répercussions du problème, s'il n'était pas réglé adéquatement, pourraient être énormes.

Nous avons vérifié l'état de préparation du gouvernement à l'an 2000 au cours de chacune des trois dernières années. En 1997, nous avons fait part de nos préoccupations au sujet de la lenteur des travaux de préparation à l'an 2000. En 1998, nous craignions fortement que certains services essentiels puissent être interrompus en 2000. En 1999, après avoir terminé nos travaux de vérification dans les ministères et les organismes, nous avons communiqué nos constatations aux directions respectives et leur avons proposé des mesures. Cette étape supplémentaire visait à leur donner plus de temps pour agir.

Le gouvernement a accompli des progrès importants dans la préparation des systèmes qui appuient les fonctions essentielles à la mission de l'administration fédérale en vue de l'an 2000. En juillet 1999, les travaux sur ces systèmes étaient complets à 99 p. 100. Le reste des travaux devait être terminé d'ici octobre 1999.

Les ministères se sont également préparés à faire face aux pannes des systèmes que pourrait causer l'arrivée de l'an 2000. Cependant, bien que des procédures d'urgence aient été définies, nous avons constaté que les plans d'urgence devaient être améliorés. Certains éléments essentiels des plans que nous avons examinés étaient incomplets ou n'étaient pas suffisamment détaillés.

Au moment où nous avons terminé notre vérification en septembre 1999, la préparation à l'an 2000 était bien avancée, mais il restait encore du travail à faire. Nous avons conclu que le gouvernement devait demeurer vigilant pour réduire au minimum toute interruption éventuelle en janvier 2000 et après.

*Pour en savoir davantage, voir les publications suivantes du BVG : La préparation à l'an 2000 : l'étape finale (chapitre 25 du Rapport de 1999); La préparation à l'an 2000 : les systèmes essentiels à la mission de l'administration fédérale (chapitre 20 du Rapport de 1998); Les technologies de l'information – La préparation à l'an 2000 (chapitre 12 du Rapport de 1997).*

## Les frais d'utilisation : plus que des recettes du gouvernement

L'idée des frais d'utilisation exigés par le gouvernement n'est pas nouvelle; certains ministères en imposent depuis le début du siècle pour les services qu'ils offrent. Mais ce n'est qu'au cours de la présente décennie que l'idée a été sérieusement retenue, particulièrement à la suite de l'Examen des programmes de 1995 lorsque les ministères ont réaménagé des programmes pour faire face au déficit et améliorer les services offerts aux Canadiens. Les frais d'utilisation existants ont été augmentés et de nouveaux frais ont été imposés.

Cette initiative a été vivement critiquée à maintes reprises. Les groupes d'utilisateurs et des commentateurs respectés ont critiqué la façon dont les frais d'utilisation avaient été mis en oeuvre et se sont interrogés sur le bien-fondé de la politique. L'un des principaux architectes de l'Examen des programmes soutient que les gestionnaires se sont trop appuyés sur les frais d'utilisation pour atteindre les objectifs de l'Examen des programmes. Un groupe d'intérêt influent de l'industrie a demandé un moratoire sur les frais d'utilisation dans l'ensemble du gouvernement.

Nos travaux de vérification, tant ces dernières années que cette année, fournissent d'amples raisons de s'interroger au sujet de la mise en oeuvre des frais d'utilisation. Les faiblesses constatées dans la détermination des coûts des services ont laissé les utilisateurs avec un sentiment d'inquiétude au sujet de l'information sur les coûts utilisée pour établir les frais. Souvent, les gestionnaires ne peuvent arriver à convaincre les utilisateurs que les frais ne servent pas à financer des activités inefficientes. Bien que les frais d'utilisation soient une question litigieuse qui ait alimenté de nombreux débats, les ministères et le Secrétariat du Conseil du Trésor ont généralement communiqué peu d'information au Parlement et au public sur leurs projets au sujet des frais d'utilisation ou sur les résultats de ceux-ci.

Que faut-il donc faire? Le Secrétariat du Conseil du Trésor a promis de réévaluer cette politique cette année. Alors que de nombreuses voix s'élèvent pour exiger le gel ou l'abandon des frais d'utilisation, il est important de considérer les arguments en faveur de l'initiative. Nos travaux fournissent la preuve que les frais d'utilisation peuvent procurer des avantages supplémentaires, outre des recettes, tant au gouvernement qu'aux utilisateurs de services. Les frais d'utilisation peuvent inciter les utilisateurs à communiquer avec les gestionnaires et à cibler les services auxquels ils attachent réellement de l'importance. Les pressions exercées par les frais d'utilisation en vue d'améliorer les normes de service, les systèmes de contrôle des coûts et l'efficience des activités devraient être bien accueillies par les utilisateurs et les représentants du gouvernement.

Les frais d'utilisation ne peuvent s'appliquer partout et ils ne doivent pas non plus être jugés comme une panacée, mais ils peuvent jouer un rôle valable dans la gestion des services publics.

*Pour en savoir davantage, voir la publication suivante du BVG : Portefeuille de l'Agriculture – Les frais d'utilisation (chapitre 11 du Rapport de 1999).*

## Les programmes de subventions et de contributions : la gestion est toujours lacunaire

Les subventions et les contributions sont des paiements de transfert du gouvernement à des particuliers et à des organisations de divers types. Les subventions sont des transferts inconditionnels, c'est-à-dire qu'elles n'imposent aucune obligation aux bénéficiaires au-delà des conditions initiales d'admissibilité. Cependant, les contributions sont des paiements de transfert qui sont assujettis à des conditions de rendement qui sont précisées dans un accord de contribution.

Au cours des deux dernières décennies, mon bureau a effectué plusieurs vérifications de la gestion des programmes de subventions et de contributions des ministères et des organismes fédéraux. Ces vérifications ont révélé des lacunes persistantes, allant de problèmes de conformité aux dispositions législatives régissant les programmes à des faiblesses dans la conception des programmes, en passant par de mauvais contrôles et de l'information inadéquate communiquée sur le rendement.

Je ne peux que manifester un certain degré de frustration au sujet de la gestion des programmes de subventions et de contributions. Je crois que mon bureau a produit des résultats positifs en ce qui concerne les programmes qu'il a vérifiés. Mais ce qui m'inquiète, c'est que nous constatons les mêmes problèmes quand nous vérifions d'autres programmes. Je sais que les parlementaires sont inquiets eux aussi. Par exemple, dans son 24e rapport à la Chambre des communes déposé en mars 1999, le Comité permanent des comptes publics a recommandé que mon bureau envisage d'entreprendre une vérification de la gestion des programmes de subventions et de contributions, à l'échelle gouvernementale, et qu'il communique ses conclusions au Parlement.

Dans ma réponse de juin dernier à cette recommandation, j'ai informé le Comité que nous planifiions une telle vérification dont les résultats devraient être présentés à l'automne de 2001. Nous avons l'intention d'examiner un certain nombre de ministères et d'organismes, dont les programmes de subventions et de contributions sont relativement importants, afin de pouvoir faire des observations sommaires sur la qualité de la gestion de ces programmes dans l'ensemble du gouvernement.

Entre-temps, nous continuons à effectuer des vérifications de programmes précis de subventions et de contributions et d'en communiquer les résultats à la Chambre des communes. Cette année, nous avons examiné les paiements aux termes de la Stratégie du poisson de fond de l'Atlantique, de la Phase II du programme Travaux d'infrastructure Canada et de quatre programmes de subventions et de contributions du portefeuille de l'Industrie.

*Pour en savoir davantage, voir les publications suivantes du BVG : La Stratégie du poisson de fond de l'Atlantique : les contributions et les subventions (chapitre 7 du Rapport de 1999); Le programme Travaux d'infrastructure Canada : Phase II et suivi de la vérification de la Phase I (chapitre 17 du Rapport de 1999); Portefeuille de l'Industrie – L'investissement dans l'innovation (chapitre 19 du Rapport de 1999); Les subventions et les contributions : certains programmes d'Industrie Canada et du ministère du Patrimoine canadien (chapitre 27 du Rapport de 1998).*

# Annexe du chapitre : Questions récentes et questions qui posent toujours problème

## La gestion en vue du développement durable : des progrès ont été réalisés mais des lacunes demeurent

Cela fait quatre ans que la *Loi sur le vérificateur général* a été modifiée pour aider à améliorer la performance du gouvernement fédéral en ce qui a trait à la protection de l'environnement et à la promotion du développement durable. En vertu de ces modifications, les ministères ont été tenus de préparer des stratégies de développement durable et le poste de commissaire à l'environnement et au développement durable a été créé au sein de mon bureau pour permettre la surveillance de la performance des ministères et en rendre compte annuellement à la Chambre des communes.

Depuis, le commissaire a soumis trois rapports annuels à la Chambre des communes qui présentaient les résultats de 17 vérifications et études de questions ayant un volet important en matière d'environnement ou de développement durable. Qu'avons-nous appris?

De nombreuses questions liées à l'environnement et au développement durable sont, de par leur nature, difficiles à gérer. Elles sont souvent complexes sur le plan scientifique, exigent beaucoup de temps pour les traiter et ne correspondent pas parfaitement au mandat ou au champ de compétence d'un seul ministère ou d'une seule administration.

Malgré ces difficultés, quand des politiques et des programmes sont élaborés et annoncés, le public s'attend à ce qu'ils soient mis en oeuvre et que les résultats escomptés soient obtenus. Mais comme le commissaire l'a indiqué dans son rapport de mai 1999, la gestion des questions liées à l'environnement et au développement durable par le gouvernement fédéral est un mélange de réussites, d'échecs et de travaux en évolution.

Le commissaire et moi sommes convaincus que la performance peut être améliorée considérablement par l'application de saines pratiques de gestion aux initiatives de développement durable. Les ministères et les organismes ont déjà accompli un premier pas. En effet, nous avons trouvé des exemples de bonne gestion environnementale et constaté un intérêt croissant chez les fonctionnaires pour comprendre et faire connaître les bonnes pratiques.

Mais il reste encore beaucoup à faire pour que ces bonnes pratiques deviennent la norme et soient appliquées quotidiennement dans la gestion des questions liées à l'environnement et au développement durable.

*Pour en savoir davantage, voir la publication suivante du BVG : Rapport du commissaire à l'environnement et au développement durable de 1999.*

## La gestion durable des stocks de mollusques et de crustacés de l'Atlantique : avons-nous appris des erreurs passées?

En avril dernier, j'ai communiqué les résultats d'une vérification de la façon dont le ministère des Pêches et des Océans gère les pêches des mollusques et crustacés de l'Atlantique. Les constatations de cette vérification m'ont amené à m'interroger sur la question de savoir si le gouvernement avait tiré des leçons des échecs passés de la gestion des pêches.

Bon nombre des problèmes de gestion constatés dans des vérifications précédentes (présentées aux chapitres 14 et 15 de mon rapport de 1997) existent toujours. Le fait que le Ministère n'ait pas encore élaboré de cadre de gestion global des pêches de l'Atlantique est l'une de mes plus grandes préoccupations. Ainsi, des questions fondamentales sur la gestion des pêches demeurent sans réponse. Quels sont les objectifs globaux de la gestion des pêches? De quelle façon les gestionnaires des pêches tiennent-ils compte des facteurs biologiques, sociaux et économiques concurrents dans leurs décisions? Comment les décisions peuvent-elles être prises de façon ouverte et transparente et respecter un ensemble de principes directeurs sur les pêches? Devant l'information inévitablement limitée dont nous disposons sur la ressource, comment peut-on appliquer le principe de prudence dans l'élaboration des politiques concernant l'industrie de la pêche? Ce ne sont que quelques-unes des questions essentielles auxquelles le Ministère doit répondre.

Je crois que le Ministère doit agir rapidement pour élaborer un cadre global de gestion durable des pêches de l'Atlantique. Le Comité permanent des comptes publics a fait également cette recommandation dans son rapport à la Chambre des communes en juin dernier. Ce cadre devrait être le fondement des décisions futures. Sans ce fondement, la durabilité à long terme de la ressource est menacée.

*Pour en savoir davantage, voir les publications suivantes du BVG : Pêches et Océans – La gestion durable des stocks de mollusques et de crustacés de l'Atlantique (chapitre 4 du Rapport de 1999); Pêches et Océans – Le saumon du Pacifique : la durabilité des pêches (chapitre 20 du Rapport de 1999); Pêches et Océans Canada – Un cadre pour la pêche durable : le poisson de fond de l'Atlantique (chapitre 14 du Rapport de 1997); Pêches et Océans Canada – Rationalisation et renouvellement : le poisson de fond de l'Atlantique (chapitre 15 du Rapport de 1997).*

la composition de la fonction publique de l'avenir et prendre les mesures nécessaires pour que tout cela se concrétise. Dans la plupart des cas, il suffit de faire avancer les initiatives entreprises. Les résultats sont donc certainement à notre portée et nous devrions avoir pour objectif de clore le dossier avant la fin de la prochaine décennie.

À l'aube du nouveau siècle, le Canada peut être fier de ce qu'il a accompli, et l'avenir qui s'offre à lui est des plus prometteurs. Comme le montre notre appartenance au G–7, le Canada se classe aujourd'hui parmi les pays les plus importants du monde sur le plan économique. En outre, notre classement au premier rang de l'Index de développement humain des Nations Unies pour la sixième année consécutive indique que nos réalisations s'étendent au-delà de la seule sphère économique.

Cependant, le succès d'un pays n'est pas prédéterminé. L'expérience d'autres pays montre bien que des sociétés peuvent régresser autant que progresser. Le cours dans lequel elles se trouvent dépend énormément du rendement du secteur public : de sa capacité de produire des politiques éclairées, de fournir l'infrastructure nécessaire, de réduire au minimum le fardeau qu'il impose aux entreprises privées et aux contribuables. Pour pouvoir progresser, nous avons besoin d'institutions gouvernementales qui soient efficaces, efficientes et à l'écoute des besoins. En s'appuyant sur les pierres posées au cours de la dernière décennie, nous pouvons léguer à la postérité un Canada plus solide, comme nos ancêtres l'ont fait pour nous.



probablement paralysée. Un échec de la réforme de la fonction publique menacerait toutes les autres réformes entreprises dans le secteur public.

*Pour en savoir davantage, voir les publications suivantes du BVG : La gestion du personnel scientifique et technologique : suivi (chapitre 9 du Rapport de 1999); Les réductions des dépenses et des effectifs au sein de la fonction publique (chapitre 1 du Rapport de 1998); Les réductions des dépenses et des effectifs dans certains ministères (chapitre 2 du Rapport de 1998); Le maintien d'une fonction publique compétente et efficiente (chapitre 1 du Rapport de 1997).*

## Conclusion

Les années 90 ont été une décennie de transition dans l'administration publique, tant au Canada qu'ailleurs. La révolution des technologies de l'information qui force les sociétés du secteur privé à se « réinventer » a une incidence semblable sur les gouvernements. Tout comme les sociétés du secteur privé, les administrations publiques deviennent des organisations plus petites, axées sur leur mission, qui fournissent des biens et des services grâce à un éventail de mécanismes et à des partenariats avec d'autres parties. La maxime voulant que « les gouvernements doivent tenir la barre plutôt que ramer », décrit tout à fait ce nouveau modèle de fonction publique.

Parmi les éléments communs de ce nouveau modèle, on note un plus grand recours à des moyens à l'extérieur des ministères pour assurer les services, une importance accrue accordée aux résultats plutôt qu'aux intrants et aux extrants, une gestion axée sur les résultats plutôt que sur les règles, une diminution des contrôles centralisés en faveur d'une plus grande autonomie des gestionnaires et de l'habilitation des employés. Ce nouveau modèle suppose également une forme de régie plus participative, une plus grande transparence des activités gouvernementales et des consultations plus nombreuses du public pour l'élaboration des politiques et la prise de décisions.

**Le gouvernement fédéral a accompli des pas importants au cours de la décennie qui se termine. Mais il reste encore beaucoup à faire avant de pouvoir clore le dossier.**

Dans la plupart de ces domaines, le gouvernement fédéral a accompli des pas importants au cours de la décennie qui se termine. Mais il reste encore beaucoup à faire avant de pouvoir clore le dossier. Il faudra des améliorations à plusieurs chapitres pour réussir à se doter d'un processus budgétaire ouvert et prospectif, obtenir de l'information de bonne qualité sur les résultats des activités gouvernementales et l'intégrer à la prise des décisions de gestion, avoir une perspective nette sur le rôle et

Le gouvernement devra faire face à ces problèmes immédiats lorsqu'il établira un plan pour répondre aux besoins à long terme de la fonction publique.

Le renouvellement de l'effectif représente un enjeu à la fois immédiat et à long terme. Les fonctionnaires fédéraux sont plus âgés que la main-d'oeuvre canadienne dans son ensemble. Une grande proportion des fonctionnaires prendront probablement leur retraite au cours de la prochaine décennie. Plus de la moitié des cadres supérieurs seront admissibles à la retraite au cours des cinq prochaines années. La fonction publique devra remplacer ces employés au moment où la croissance de la population active sera généralement plus lente et où la demande de travailleurs spécialisés augmentera dans les autres secteurs de l'économie. Elle devra le faire tout en protégeant les valeurs fondamentales du secteur public, notamment l'intégrité, la neutralité politique, la diversité et le respect des règles établies.

Le gouvernement est conscient de ces problèmes et des défis qu'ils posent. Dernièrement, il s'est attaché davantage aux questions de ressources humaines et a progressé dans certains domaines, comme je l'ai indiqué en avril dernier dans un chapitre sur la gestion du personnel scientifique et technologique. De nouveaux programmes de recrutement et de perfectionnement, la reprise des négociations collectives, la Relève et un système universel de classification des postes font partie des principaux efforts déployés récemment par le gouvernement pour adapter ses pratiques de gestion des ressources humaines aux besoins actuels et prévus des employés de la fonction publique. Une série d'autres projets moins visibles sont menés dans le même but, soit à l'échelle de la fonction publique, soit dans des ministères et des organismes précis. Mais la tâche est énorme et les progrès semblent désespérément lents.

**Un échec de la réforme de la fonction publique menacerait toutes les autres réformes entreprises dans le secteur public.**

Ils le demeureront probablement jusqu'à ce que le gouvernement réussisse à établir une vision de la fonction publique qui puisse assurer une cohérence et une direction à tous ces efforts. Comment définir le juste équilibre entre la direction centrale et l'autonomie ministérielle en matière de gestion des ressources humaines? Comment maintenir une fonction publique unifiée tout en dévoluant des responsabilités aux ministères et aux organismes? Quelles fonctions gouvernementales devraient demeurer au sein de la fonction publique et quelles fonctions pourraient être exercées en dehors du cadre de la fonction publique? Sans réponses claires à ces questions, la réforme de la fonction publique sera

*des nouveaux modes de prestation de services, document de discussion, juin 1998; La création de l'Agence canadienne d'inspection des aliments (chapitre 12 du Rapport de 1998); La communication de l'information sur le rendement dans le Système de gestion des dépenses (chapitre 5 du Rapport de 1997); Transports Canada – La commercialisation du système de navigation aérienne (chapitre 19 du Rapport de 1997).*

## La revitalisation de la fonction publique est essentielle au succès de toutes les autres réformes de la fonction publique

Une fonction publique très compétente et bien motivée est essentielle à une réforme réussie de la fonction publique. En définitive, ce sont les personnes qui doivent procéder aux réformes, assurer les services et fournir de la rétroaction en vue de l'amélioration du rendement. La modernisation de la fonction publique est donc vitale pour la modernisation du gouvernement. Cela pourrait bien être le plus gros défi du gouvernement.

La fonction publique aujourd'hui est une institution fondée sur la connaissance : la majorité de ses membres appartiennent aux catégories professionnelles ou à la catégorie de la gestion. À l'avenir, cette tendance sera probablement encore plus prononcée. Les systèmes et les pratiques liés aux ressources humaines, qui ont été conçus pour une autre époque, n'appuieront pas la fonction publique de l'avenir. Les « travailleurs de la connaissance » s'autodirigent généralement. Ils fonctionnent mieux dans un environnement d'incitatifs plutôt que dans un environnement de règles. Ils veulent participer davantage à la prise de décisions. Ils attachent de l'importance à des modalités de travail souples et à l'apprentissage continu. Les sociétés intelligentes fonctionnent déjà de la sorte. La fonction publique du Canada devra apprendre à les concurrencer, si elle veut attirer et retenir les travailleurs dont elle aura besoin à l'avenir.

**La modernisation de la fonction publique est vitale pour la modernisation du gouvernement.**

Parallèlement, la fonction publique est une institution qui vit des pressions considérables. Les réductions d'effectif et des années de restriction et de restructuration ont eu un effet perturbateur. Les compétences nécessaires à l'exécution des programmes font défaut dans de nombreux domaines. Selon des sondages récents, la charge de travail plus lourde et le peu de possibilités d'avancement professionnel sont les éléments qui préoccupent le plus les fonctionnaires fédéraux. En outre, les jeunes Canadiens ne considèrent plus la fonction publique comme une option de carrière attrayante.

comptes et sans régie appropriées, ces mécanismes peuvent nuire à la capacité du Parlement d'examiner en profondeur l'utilisation qui est faite des pouvoirs fédéraux et de protéger le droit des citoyens à une reddition de comptes de la part du gouvernement.

Notre vérification de portée gouvernementale a révélé des lacunes importantes dans les mécanismes redditionnels existants. Certains mécanismes ont été établis sans prévoir de dispositions pour permettre au Parlement d'étudier la façon dont ils fonctionnent et de tenir le gouvernement responsable de leur rendement. Ils ne permettent pas toujours la participation du public ni ne prévoient de recours des citoyens ou de recours lorsque les attentes du public ne sont pas satisfaites. En fait, il existe peu de moyens qui permettent au gouvernement de surveiller lui-même efficacement ces mécanismes. À l'heure actuelle, le gouvernement ne sait pas dans quelle mesure ces mécanismes sont utilisés ou si, comme instruments de la politique fédérale, ils donnent un bon rendement ou constituent un échec.

Des forces financières et technologiques incitent les gouvernements à utiliser des façons innovatrices d'assurer la prestation des programmes et des services. Il est donc probable que l'on ait de plus en plus recours à de nouveaux mécanismes de régie dans l'avenir. Ce faisant, il faudra prendre soin, cependant, de ne pas rejeter du même coup les principes fondamentaux de la démocratie parlementaire. Chaque fois que le gouvernement aura recours à de nouveaux mécanismes pour exécuter des programmes, il devra s'assurer qu'ils comportent plusieurs éléments essentiels : des rapports crédibles, des mécanismes redditionnels efficaces, une transparence suffisante et la protection de l'intérêt public. Le Parlement doit lui-même déterminer avec soin le cadre de régie que ces nouveaux mécanismes devraient adopter. Bien que le recours à de nouveaux modes de prestation des services publics soit peut-être inévitable, il ne faut pas qu'il se fasse aux dépens de la reddition de comptes envers le Parlement et le public.

*Pour en savoir davantage, voir les publications suivantes du BVG : Les mécanismes de collaboration : les enjeux pour le gouvernement fédéral (chapitre 5 du Rapport de 1999); Développement des ressources humaines Canada – La reddition de comptes pour les programmes sociaux conjoints : Prestation nationale pour enfants et Aide à l'employabilité des personnes handicapées (chapitre 6 du Rapport de 1999); La régie en partenariat : la reddition de comptes menacée (chapitre 23 du Rapport de 1999); Le Fonds canadien d'adaptation et de développement durable : un exemple de régie en partenariat (chapitre 24 du Rapport de 1999); L'évaluation*

les décisions sur la façon de financer et d'exécuter des programmes, la détermination des frais de services à exiger lorsque la politique de l'utilisateur-payeur est appliquée — toutes ces activités exigent de l'information que le gouvernement n'a pas actuellement et que la SIF, si elle est mise en oeuvre adéquatement, peut lui procurer.

*Pour en savoir davantage, voir les publications suivantes du BVG : La Stratégie d'information financière : l'état de préparation des ministères (chapitre 21 du Rapport de 1999); La Stratégie d'information financière : un outil essentiel pour repenser le rôle de l'État (chapitre 18 du Rapport de 1998); La gestion financière – L'élaboration d'un modèle de la capacité (chapitre 2 du Rapport de 1997); La gestion de la fonction comptable du gouvernement au niveau des organismes centraux (chapitre 3 du Rapport de 1997).*

## Les nouveaux mécanismes de régie exigent de nouveaux mécanismes redditionnels

Dans le chapitre 23 de ce rapport, je discute des résultats d'une vérification de portée gouvernementale de la reddition de comptes à l'égard des nouveaux types de mécanismes de régie qui associent des organisations de l'extérieur de l'administration fédérale pour atteindre des objectifs fédéraux. Les Ententes sur le développement du marché du travail avec les provinces, la Fondation canadienne pour l'innovation, la Prestation nationale pour enfants, la Fondation canadienne des bourses d'études du millénaire et la Corporation de gestion de la Voie maritime du Saint-Laurent sont des exemples de ces nouveaux mécanismes. Ceux-ci sont de plus en plus utilisés et ils augurent bien pour une prestation plus efficace et plus efficiente des programmes et des services fédéraux.

**Sans reddition de comptes et sans régie appropriées, ces mécanismes peuvent nuire à la capacité du Parlement d'examiner en profondeur l'utilisation des pouvoirs fédéraux.**

Cependant, je crains que le gouvernement n'ait pas considéré suffisamment leurs répercussions sur la reddition de comptes et la régie. De par leur nature, ces mécanismes mettent en question les relations redditionnelles classiques où les ministres rendent compte de leurs politiques et programmes au Parlement et, par l'entremise du Parlement, aux citoyens en général. Étant donné que des tiers sont parties prenantes à ces mécanismes, les ministres ne sont jamais entièrement responsables d'eux. Dans certains cas, on a intentionnellement établi des mécanismes de façon totalement indépendante des ministres, bien qu'ils puissent dépendre des fonds et des pouvoirs fédéraux. Sans reddition de

connaître également le coût. Les méthodes et les systèmes comptables utilisés actuellement par le gouvernement ne fournissent pas d'information fiable et actuelle au sujet du coût des activités ou des extrants.

La Stratégie d'information financière (SIF) mise en oeuvre actuellement vise à combler cette lacune. Entre autres choses, la SIF remplacera la méthode actuelle de comptabilité de caisse modifiée, qui est archaïque, par une méthode de comptabilité d'exercice intégrale, semblable à celle qui est utilisée dans le secteur privé. Cela veut dire que les coûts des immobilisations seront constatés au fil du temps, au fur et à mesure que les actifs seront utilisés, au lieu d'être imputés intégralement à l'exercice où elles sont acquises. En associant adéquatement les coûts aux activités qu'ils servent à financer, la comptabilité d'exercice nous fournira de l'information de meilleure qualité sur les véritables coûts des programmes publics.

**Les méthodes et les systèmes comptables utilisés actuellement par le gouvernement ne fournissent pas d'information fiable et actuelle au sujet du coût des activités ou des extrants.**

Lancée pour la première fois en 1989, la SIF a été rétablie comme priorité gouvernementale en 1995. La date de mise en oeuvre de la SIF dans l'ensemble de l'administration fédérale est fixée à avril 2001. Grâce à la SIF, la gestion dans l'administration fédérale sera conforme aux pratiques modernes du secteur privé et d'autres administrations, pour ne nommer que l'Alberta, l'Australie, la Nouvelle-Zélande et le Royaume-Uni.

Le gouvernement devra accélérer la mise en oeuvre s'il veut respecter la date cible fixée. Comme je l'indique dans le chapitre 21 de ce rapport, la SIF est encore loin d'être achevée. Au moment de notre vérification, la plupart des ministères n'avaient pas les outils nécessaires pour la mettre en oeuvre. De plus, le Secrétariat du Conseil du Trésor devait améliorer considérablement sa gestion et l'appui qu'il accorde aux ministères. À mon avis, il faut donner à la SIF l'impulsion suscitée dans l'ensemble de l'administration fédérale pour résoudre le problème du passage à l'an 2000. Il faut, en particulier, que de nouveaux systèmes financiers et de nouvelles règles comptables soient mis en place d'ici deux ans pour que l'échéance fixée puisse être respectée. Il faut aussi encourager les fonctionnaires, dans l'ensemble de l'administration fédérale, à utiliser l'information financière (actuelle et semblable à celle qu'utilise le secteur privé) que la SIF fournira pour assurer la gestion quotidienne et la reddition de comptes.

Le gouvernement ne peut se permettre de laisser traîner ce projet, étant donné les retards précédents. La production de rapports significatifs sur le rendement, l'évaluation de programmes, la gestion des stocks et des biens,

l'information axée sur les résultats pour assurer un rendement et une reddition de comptes efficaces dans le secteur public.

Néanmoins, les progrès dans ce domaine demeureront probablement lents jusqu'à ce que des incitatifs appropriés à la communication de l'information sur les résultats et le rendement aient été mis en place. Il serait important que le gouvernement tente en premier lieu de trouver des façons de mieux utiliser l'information sur le rendement dans ses décisions relatives à la planification et à l'affectation des ressources pour les programmes. Les parlementaires peuvent aussi faire leur part en examinant de plus près les rapports ministériels sur le rendement et en les utilisant davantage pour examiner en profondeur les activités du gouvernement. Il faut également encourager les gestionnaires des ministères à mieux intégrer l'information sur le rendement dans leurs décisions de planification. Pour y parvenir, il faut un appui vigoureux des cadres supérieurs pour susciter l'adoption d'une culture axée davantage sur les résultats que seulement sur les intrants et les extrants. Sans cet appui, les progrès seront très lents. Avec cet appui, il sera possible de moderniser la gestion publique.

**Les progrès dans ce domaine demeureront probablement lents jusqu'à ce que des incitatifs appropriés à la communication de l'information sur les résultats et le rendement aient été mis en place.**

*Pour en savoir davantage, voir les publications suivantes du BVG : L'examen par les comités parlementaires des nouveaux documents du Budget des dépenses, 1998; La communication de l'information sur le rendement dans le Système de gestion des dépenses (chapitre 5 du Rapport de 1997); Vers une gestion axée sur les résultats (chapitre 11 du Rapport de 1997); Les sociétés d'État – Appliquer la mesure du rendement (chapitre 22 du Rapport de 1997); Sociétés d'État : s'acquitter des responsabilités en matière d'intendance (chapitre 10 du Rapport de 1995); Les sociétés d'État – L'obligation de rendre compte du rendement (chapitre 4 du Rapport de 1993).*

## L'amélioration du rendement passe par l'amélioration de l'information sur les coûts

À l'heure actuelle, l'amélioration de l'information sur le rendement et la gestion axée sur les résultats sont également limitées par la piètre qualité de l'information sur les coûts des activités gouvernementales. Un système efficace axé sur le rendement exige de l'information financière exacte et actuelle. Pour évaluer le rendement, il faut pouvoir relier les résultats aux coûts. Il ne suffit pas de savoir seulement ce qui est produit, il faut en

Au cours des dernières années, le gouvernement fédéral a lancé plusieurs initiatives importantes dans le domaine de la communication de l'information sur le rendement, comme le montre la pièce 3. Ces initiatives ont certainement donné des résultats positifs. L'information communiquée au Parlement est maintenant plus complète et plus accessible; les descriptions des missions, des structures et des activités des ministères se sont améliorées et l'établissement des attentes et la communication du rendement ont progressé.

Pièce 3

**Dates marquantes de l'engagement fédéral en matière de communication de l'information sur le rendement**

**Février 1995.** Le gouvernement annonce un nouveau système de gestion des dépenses, attestant de son engagement envers « la mesure du rendement et la gestion ».

**Novembre 1995.** Dans son rapport annuel, intitulé *Pour une fonction d'examen plus efficace*, le Président du Conseil du Trésor réaffirme l'engagement du gouvernement envers la gestion axée sur les résultats et établit la stratégie pour y parvenir.

**Avril 1997.** La Chambre des communes approuve une motion visant à séparer la partie III du *Budget des dépenses* annuel en deux documents, le *Rapport sur les plans et les priorités*, déposé au printemps, et le *Rapport sur le rendement*, déposé à l'automne. Le *Rapport sur les plans et les priorités* doit établir les attentes en matière de rendement et le *Rapport sur le rendement* doit montrer dans quelle mesure les attentes se sont concrétisées. La première série complète de rapports sur le rendement a été déposée en novembre 1997 et celle des rapports sur les plans et les priorités a été déposée en mars 1998.

Pourtant, comme le reconnaît le gouvernement, il reste encore beaucoup à faire. Souvent, les objectifs mentionnés dans les plans des ministères sont vagues. Les résultats précis attendus ne sont ni clairement énoncés ni mesurables, et ils tendent à mettre l'accent sur les extrants (ce qui est produit), plutôt que sur les conséquences (les résultats). Les rapports sont encore axés principalement sur les activités et les produits.

Dès le départ, on a admis qu'il serait difficile de mettre en oeuvre la gestion axée sur les résultats et la reddition de comptes à leur égard. Certes, il n'est pas facile d'établir des attentes de rendement significatives, de mesurer les réalisations de façon fiable et d'en rendre compte fidèlement. Les liens de cause à effet entre les extrants des programmes et les conséquences sociétales sont rarement clairs ou précis. Nos attentes doivent donc être réalistes à ce chapitre.

Cela dit, cependant, je suis convaincu que le fait de mettre l'accent sur les résultats constitue la bonne approche. D'autres administrations qui ont pavé la voie pour nous — l'Australie, les États-Unis, la Nouvelle-Zélande, le Royaume-Uni, les pays nordiques — admettent qu'elle n'est pas sans difficultés, mais je n'en connais aucune qui voudrait revenir en arrière. Les organismes indépendants de normalisation au Canada en conviennent également. La CCAF–FCVI Inc., l'Institut Canadien des Comptables Agréés, le Conseil canadien des vérificateurs législatifs — chacun de ces organismes a parrainé récemment d'importants programmes de recherche et de développement visant à encourager la communication de l'information sur le rendement dans le secteur public. Ces initiatives reflètent un consensus accru parmi les praticiens au sujet de l'importance de communiquer de

qui a permis ces améliorations. Même lorsque la situation financière est bonne — surtout quand elle est bonne — il est important d'établir des limites aux dépenses que nous pouvons effectuer et de les respecter. Comme nous l'avons appris au début des années 90, si nous ne nous fixons pas de limites nous-mêmes, les marchés financiers le feront pour nous. Le but véritable d'un bon processus budgétaire est de nous empêcher de retomber dans cette situation.

*Pour en savoir davantage, voir les publications suivantes du BVG : Le vieillissement de la population et l'information destinée au Parlement : pour comprendre les choix (chapitre 6 du Rapport de 1998); Information destinée au Parlement – Les déficits et la dette : pour comprendre les choix (chapitre 9 du Rapport de 1995); Information destinée au Parlement – Pour comprendre les déficits et la dette (chapitre 5 du Rapport de 1993).*

## Sans une information de meilleure qualité sur les résultats des programmes gouvernementaux, les Canadiens ne peuvent savoir ce qu'ils obtiennent en contrepartie des impôts et des taxes qu'ils payent

Dans mon premier rapport en tant que vérificateur général il y a huit ans, j'ai insisté sur la nécessité pour les gestionnaires et les ministères de rendre compte des résultats obtenus, « de ce qu'ils ont réussi à faire — ou n'ont pu faire — avec l'argent des contribuables ». L'information sur les résultats est nécessaire d'abord et avant tout parce qu'elle est la raison d'être des organisations, qui est évidemment d'obtenir des résultats souhaitables et non pas seulement d'utiliser des ressources. Elle est également nécessaire pour des raisons d'ordre pratique, plus particulièrement pour :

- gérer les programmes et les services de façon plus efficiente et plus efficace. Il est impossible d'améliorer son travail sans connaître les résultats qu'il produit;
- favoriser une meilleure affectation des ressources publiques. Pour prendre des décisions intelligentes sur le financement des programmes, il faut posséder de l'information sur les résultats obtenus ou non obtenus grâce à ces programmes;
- améliorer la reddition de comptes à l'égard des fonds publics. La délégation du pouvoir d'utiliser les fonds publics fait qu'il devient d'autant plus nécessaire d'exiger des rapports plus précis sur les objectifs atteints et les résultats obtenus afin de préserver le contrôle démocratique et la reddition de comptes à l'égard de l'utilisation de l'argent des contribuables.

s'est traduite par une révision complète des programmes existants pour déterminer s'ils étaient toujours nécessaires et s'ils pouvaient être mieux gérés. La deuxième initiative a consisté en l'établissement d'un nouveau système de gestion des dépenses, qui a permis le plafonnement des dépenses publiques et dans le cadre duquel tous les nouveaux projets devaient être financés avec des fonds réaffectés de programmes existants. L'Examen des programmes a pris fin en 1995 et le plafonnement des dépenses a été levé implicitement en 1998, avec l'élimination du déficit. Cependant, la nécessité d'examiner continuellement les activités gouvernementales demeure, car il faut toujours veiller à ce que ces activités répondent à une fin publique utile et à ce qu'elles demeurent efficientes, efficaces et abordables.

**La nécessité d'examiner continuellement les activités gouvernementales demeure.**

Un cadre financier pluriannuel peut servir d'incitatif à un tel examen continu. Dans un tel cadre, le gouvernement établirait des plafonds de dépenses conformes à la situation financière qu'il souhaite à l'avenir. Des plafonds de dépenses sont essentiels à une bonne gestion et à une discipline financière dans le secteur public. Ils jouent le rôle du budget des ménages dans les décisions en matière de dépenses des familles : ils forcent les décideurs à tenir compte du coût de leurs décisions et les obligent à choisir soigneusement parmi les dépenses possibles.

Les demandes qui peuvent être faites au gouvernement ou les services que celui-ci peut choisir d'offrir sont illimités. En l'absence de restrictions budgétaires, la tentation d'en faire trop est naturelle. Quand on peut financer de nouveaux programmes sans réduire les ressources des programmes existants, pourquoi engager des coûts et se casser la tête pour analyser avec soin de nouvelles propositions, ou risquer de s'aliéner des appuis politiques en s'y opposant? Les ministres et les gestionnaires du gouvernement sont peu incités à réduire leurs propres dépenses, ou à s'opposer à celles des autres quand elles ne nuisent pas à leurs programmes préférés. Établir des plafonds explicites de dépenses modifie cette dynamique, en rappelant aux décideurs le fait que chaque programme est en concurrence avec tous les autres pour l'obtention de ressources. Cela favorise l'examen plus minutieux des nouvelles initiatives et la comparaison de leur bien-fondé avec celui d'autres initiatives qui devraient être sacrifiées pour les mettre en place.

**Même lorsque la situation financière est bonne — surtout quand elle est bonne — il est important d'établir des limites aux dépenses que nous pouvons effectuer et de les respecter.**

Les finances du Canada se sont améliorées considérablement au cours des dernières années. Le défi est désormais de maintenir la discipline financière

prévues. En février 1997, les dépenses de programme de l'exercice 1997–1998 devaient s'établir à 105,8 milliards de dollars, mais les dépenses réelles comptabilisées pour cet exercice se sont élevées à 108,8 milliards de dollars. En février 1998, le gouvernement prévoyait des dépenses de programme de 104,5 milliards de dollars pour l'exercice 1998–1999. Les dépenses réelles ont totalisé 111,4 milliards de dollars, soit près de sept pour cent de plus.

L'enjeu va bien au-delà du fait que le gouvernement ait dépensé davantage qu'il n'avait prévu de dépenser. La façon dont il l'a fait compte également. La ruée à l'étape de la préparation du budget pour trouver de nouvelles façons de dépenser de l'argent avant la fin de l'exercice n'est pas un processus qui permet d'assurer le souci de l'efficience, de l'efficacité et de l'économie dans l'utilisation des fonds publics. De fait, cela diffère très peu des dépenses de fin d'exercice effectuées par les ministères qui disposent de fonds excédentaires, sauf qu'il s'agit non plus de millions, mais de milliards de dollars qui proviennent de la poche des contribuables.

L'approche actuelle à l'égard de la planification budgétaire conduit aussi à un biais procyclique, qui a pour effet de stimuler l'économie lorsque celle-ci est forte et de la ralentir lorsqu'elle est faible. Les excédents budgétaires seront généralement plus importants que prévu si la croissance économique est plus importante que prévu, et seront par ailleurs plus petits que prévu si la croissance est relativement faible. La politique voulant que l'on se fixe un objectif précis pour l'excédent, que l'on doit atteindre quoiqu'il advienne, exigera par conséquent une augmentation des dépenses quand l'économie va mieux que prévu et une réduction des dépenses quand l'économie va moins bien. En résumé, elle aura pour effet de stimuler une économie déjà forte et de ralentir une économie faible, et de perturber ainsi les fluctuations normales du cycle économique.

L'approche actuelle en matière de planification financière a été adoptée à une époque où les déficits étaient énormes et où le scepticisme était répandu au sujet de la capacité du gouvernement de les maîtriser, ce qui était l'héritage d'une série de prévisions trop optimistes. Dans les circonstances, l'établissement d'objectifs inconditionnels à court terme s'est révélé une stratégie gagnante. Maintenant que les conditions qui ont donné lieu à cette stratégie sont chose du passé, la stratégie doit être repensée.

### Un cadre financier pluriannuel peut encourager la discipline financière et la prise de saines décisions en matière de dépenses

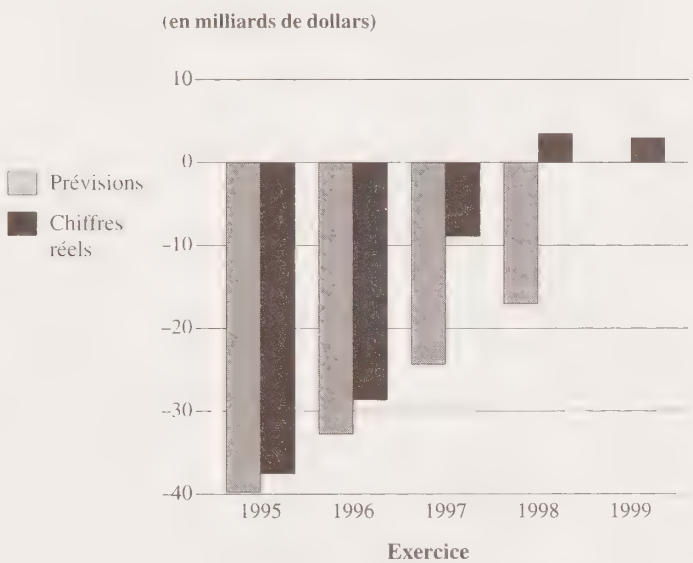
Deux initiatives lancées par le gouvernement au début de son mandat ont facilité l'élimination du déficit. La première, l'Examen des programmes,

objectif de présenter chaque année un budget équilibré ou un budget prévoyant un léger excédent.

Selon le processus de planification actuel, le gouvernement établit des objectifs précis concernant le solde budgétaire pour les deux exercices qui suivent le budget. Le gouvernement s'engage inconditionnellement à atteindre ces objectifs. Dans le langage imagé du ministre des Finances, ces objectifs doivent être atteints « contre vents et marées ». Pour être certain qu'ils le soient, il établit des objectifs selon des hypothèses économiques « prudentes », c'est-à-dire en supposant que les taux d'intérêt seront supérieurs et que la croissance économique sera inférieure aux prévisions qui font consensus dans le secteur privé. Il ajoute également une « réserve pour éventualités » de trois milliards de dollars comme coussin supplémentaire en cas d'événements imprévus.

**Pièce 2**

**Solde budgétaire : les prévisions comparées aux chiffres réels**




Comme le montre la pièce 2, au cours des cinq dernières années, le gouvernement a dépassé chacun des objectifs qu'il s'était fixés. Au cours des premières années de cette approche « prudente » à l'égard de la planification budgétaire, au moment où le budget affichait encore un déficit, dépasser l'objectif voulait dire se rapprocher d'un budget équilibré plus vite que prévu. Cette approche s'est révélée utile, car elle a permis au gouvernement de montrer son sérieux en matière budgétaire et de donner aux marchés l'assurance que les finances du gouvernement étaient enfin maîtrisées. Puisque le budget affiche maintenant un excédent, cette approche a des conséquences qui sont moins positives.

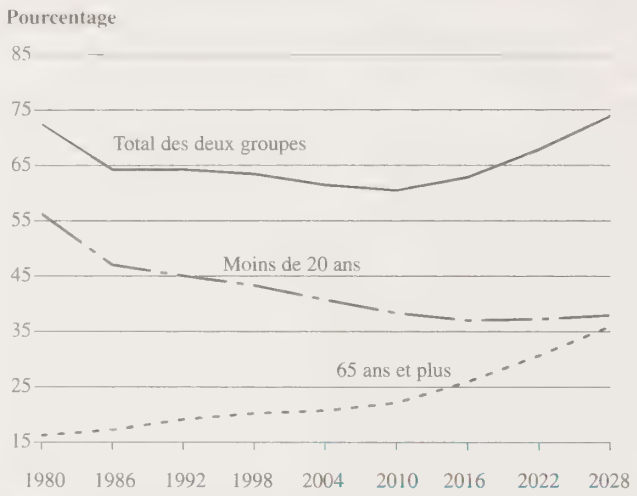
Tout d'abord, elle incite le gouvernement à dépenser davantage. Avec des prévisions budgétaires fondées sur des hypothèses pessimistes, il est probable que l'excédent budgétaire réel dépassera les projections. Au moment où cela devient évident, vers la fin de l'exercice, il est généralement trop tard pour influer sur les résultats en réduisant les impôts et les taxes, ce qui fait que l'augmentation des dépenses devient le moyen le plus efficace d'éliminer un excédent « excessif ». Chacun des deux derniers budgets contenait de nouvelles dépenses importantes qui ont été imputées à l'exercice où le budget a été déposé. Par conséquent, les dépenses comptabilisées au cours de chacun de ces deux exercices étaient beaucoup plus élevées que les dépenses

l'importance des problèmes immédiats n'est pas convaincant. Seule une perspective à long terme peut nous permettre de comprendre parfaitement l'urgence de la situation financière actuelle.

Cela est tout particulièrement vrai aujourd'hui, étant donné les tendances démographiques prévues et leurs conséquences sur les finances publiques. Le ratio des personnes jeunes et des personnes âgées à la population d'âge actif au Canada a atteint un creux historique (voir la pièce 1). Ce ratio favorable commencera à s'inverser dans environ dix ans, au moment où la génération issue de l'explosion démographique atteindra l'âge normal de la retraite. Dans trois décennies, la proportion de personnes âgées dans la population aura doublé, ce qui exercera des pressions sans précédent sur les régimes de soins de santé et de sécurité sociale. Les décisions que nous prenons aujourd'hui définiront les choix qui s'offriront aux Canadiens non seulement cette année et la prochaine, mais dans les décennies qui suivront. Devrions-nous laisser cet héritage au hasard?

Pièce 1

**Ratio des personnes jeunes et des personnes âgées à la population d'âge actif**




**Source :** Statistique Canada, Matrice 6367

Le Canada a éliminé son déficit beaucoup plus vite que quiconque ne l'aurait prédit il y a quelques années. Les perspectives à court terme demeurent favorables. Cela nous donne une marge de manoeuvre pour mettre en place les structures qui nous permettront de résister aux pressions démographiques qui se profilent. Pour y parvenir, nous avons besoin d'information sur les effets négatifs de ces pressions. Et manifestement, cette information doit être établie selon une perspective qui dépasse de beaucoup l'horizon budgétaire actuel de deux ans à cinq ans du gouvernement.

## Dans un contexte d'excédents, des objectifs inconditionnels à court terme fondés sur des prévisions pessimistes peuvent avoir des conséquences néfastes

Le plan, ou le cadre financier, est un élément essentiel de tout budget moderne. Il reflète la réponse du gouvernement aux conditions économiques actuelles et son approche stratégique pour assurer la stabilité et la santé des finances publiques. Jusqu'à tout récemment, la stratégie financière du gouvernement visait exclusivement la réduction du déficit. Avec l'élimination du déficit il y a deux ans, le gouvernement a maintenant pour

Au cours des dernières années, le gouvernement a fourni des projections de seulement deux ans. Dans sa mise à jour financière de l'automne, rendue publique plus tôt ce mois-ci, le ministre des Finances a présenté pour la première fois des prévisions quinquennales des recettes et dépenses du gouvernement, fondées sur la moyenne des prévisions du secteur privé. Bien que le fait d'étendre les perspectives financières à cinq ans soit un pas important dans la bonne voie, il est, à mon avis, toujours insuffisant pour permettre un débat pleinement éclairé sur les choix budgétaires auxquels nous sommes confrontés et les répercussions de chacun d'entre eux. Pour cela, il nous faut aussi de l'information sur les perspectives financières à long terme du Canada.

**Les projections financières à long terme sont nécessaires pour contrebalancer la tendance naturelle, chez la classe politique, à mettre l'accent sur le court terme.**

De plus en plus de pays fournissent des cadres budgétaires à long terme qui permettent aux législatures et au public de faire des choix éclairés au sujet de l'avenir. Comme les projections à long terme sont nécessairement spéculatives, elles ne devraient pas engager le gouvernement à obtenir précisément les résultats projetés. Au Royaume-Uni, par exemple, les projections financières à long terme constituent une obligation aux termes du Code de stabilité financière adopté l'an dernier. Elles sont clairement étiquetées comme étant des « illustrations ». En Nouvelle-Zélande, où la Loi sur la responsabilité financière oblige également le gouvernement à préparer des projections à long terme, le Ministre précise que celles-ci « ne constituent pas des prévisions financières ». Elles montrent plutôt quelle pourrait être la situation financière du gouvernement selon diverses hypothèses. La valeur de telles projections réside dans le fait qu'elles précisent davantage, tant pour le Parlement que pour le public, les conséquences à long terme de la politique budgétaire et donnent des signes avant-coureurs des tendances financières négatives et des dépenses qui se profilent.

Dans un rapport déposé en octobre 1998, le Comité permanent des comptes publics de la Chambre des communes a souscrit à la nécessité de communiquer de l'information financière à long terme. Dans sa réponse au Comité, le ministère des Finances a soutenu que des projections à long terme mineraient « l'importance et l'urgence des problèmes immédiats ». Cependant, le Ministère n'a pas refusé catégoriquement de fournir de telles projections à l'avenir, lorsque le gouvernement aura enregistré plus d'excédents annuels et que la classe politique ne mettra plus l'accent sur les objectifs à court terme. Je pense que le Ministère est dans l'erreur. À mon avis, l'argument voulant que des projections financières à long terme minent

## Le processus budgétaire : meilleur mais toujours insuffisant

La façon dont le gouvernement prépare le budget a évolué énormément au cours des années 90. Les audiences prébudgétaires tenues à l'automne par le Comité permanent des finances de la Chambre des communes ont été le principal moteur de ce changement. Dans mon rapport de 1993, j'ai réclamé la tenue de telles audiences et je suis heureux de constater qu'elles font maintenant partie intégrante du processus budgétaire. À mon avis, elles représentent l'une des plus importantes réformes du processus budgétaire depuis des décennies.

Les audiences constituent une excellente occasion de mettre l'accent sur les questions budgétaires et d'amener le public à participer aux décisions prises à ce sujet. Ces audiences jouissent d'une vaste publicité et, de ce fait, aident à améliorer la compréhension du public à l'égard des restrictions financières et des compromis auxquels le gouvernement est confronté lorsqu'il établit la politique budgétaire. Elles permettent au gouvernement de tester les propositions qu'il envisage et de connaître les positions du public et du Parlement sur celles-ci avant de les inclure officiellement dans le budget. Elles peuvent aussi aider à mobiliser l'appui du public pour apporter des changements, en faisant participer les Canadiens en général aux décisions. Les audiences, ainsi que les documents d'information communiqués par le ministère des Finances, ont donné lieu à un processus de consultation beaucoup plus ouvert et transparent, conformément aux meilleures pratiques constatées dans les autres administrations.

À d'autres égards, cependant, le processus budgétaire fédéral demeure en retard par rapport aux pratiques modernes d'ailleurs. Plus particulièrement, il n'est toujours pas suffisamment prospectif, les objectifs d'excédents offrent une marge de manoeuvre limitée et, maintenant que l'Examen des programmes est terminé et que les pressions financières sont chose du passé, il n'y a plus de mécanisme en place pour encourager l'examen continu des programmes.

### Il est grand temps d'avoir une perspective à long terme

J'invite depuis longtemps le gouvernement à fournir des projections financières à long terme dans le cadre du processus budgétaire. Je demeure convaincu que de telles projections sont nécessaires pour contrebalancer la tendance naturelle, chez la classe politique, à mettre l'accent sur le court terme.

Parallèlement, les technologies de l'information offrent aux gouvernements de nouvelles possibilités pour répondre à ce besoin. L'avancement de l'informatique et des communications facilite la diffusion de l'information et la consultation des citoyens, ce qui amène le gouvernement à être plus ouvert et à consulter davantage. Ces technologies réduisent le coût des opérations avec les parties extérieures, de la coordination des activités entre régions éloignées et de la surveillance du rendement, favorisant ainsi de nouveaux modes de prestation des services par rapport aux moyens traditionnels. Les technologies exigent un effectif hautement spécialisé qui puisse s'adapter, ainsi que des pratiques de gestion des ressources humaines nouvelles et novatrices afin d'obtenir un rendement optimal.

## La modernisation de l'administration publique

Ces progrès se produisent dans la plupart des pays industrialisés et contribuent à un changement fondamental dans la façon dont nous considérons le gouvernement, ce qu'il fait et comment il le fait. Le modèle bureaucratique traditionnel de gestion publique — centralisée, opaque, hiérarchique — est de plus en plus considéré comme inadapté à notre époque. Bien qu'une solution de rechange précise au modèle traditionnel soit toujours à inventer, les principales caractéristiques du nouveau mode de gestion dans l'administration publique sont :

- un processus budgétaire plus prospectif et transparent;
- une approche de la gestion axée sur les résultats et décentralisée;
- un plus grand recours à l'impartition et à des partenariats avec d'autres organisations pour assurer la prestation des services;
- un effectif plus souple et davantage motivé par des incitatifs.

Où en est l'administration publique fédérale dans cette révolution mondiale de la régie du secteur public? Quels changements doit-on apporter pour la préparer au siècle prochain?

Voilà les questions auxquelles je tente de répondre dans ce chapitre, où je me penche tout particulièrement sur la modernisation du processus budgétaire, l'amélioration de l'information axée sur les résultats, les nouveaux mécanismes redditionnels et la revitalisation de la fonction publique. Je traite aussi, en annexe au chapitre, d'autres questions qui ne sont pas directement liées au thème de la modernisation de l'administration publique mais que je considère importantes.

Maintenant que la décennie tire à sa fin, le budget affiche un excédent et on est à débattre de la façon de répartir le dividende financier. L'effectif de l'administration fédérale, d'environ 220 000 personnes (compte non tenu du personnel des sociétés d'État et des militaires), est environ 20 p. 100 plus petit qu'il ne l'était au début de la décennie. En décembre 1990, le gouvernement a publié le *Plan directeur pour le renouvellement des services gouvernementaux*, qui prévoyait une réduction des règles prescrites au niveau central, l'augmentation de la marge de manoeuvre dont jouissent les gestionnaires pour gérer leurs ministères, et des pouvoirs accrus pour les employés directement en contact avec le public. Aujourd'hui, ces plans sont devenus en grande partie une réalité, bien que le parcours amorcé il y a dix ans soit loin d'être achevé.

Des changements semblables sont survenus au cours des années 90 dans de nombreuses autres administrations, tant au Canada qu'à l'étranger, reflétant l'influence de diverses forces. Parmi celles-ci, on remarque une augmentation des pressions exercées sur les gouvernements pour qu'ils deviennent plus efficients, et de nouvelles possibilités — créées par la révolution de l'information — de revoir le mode de fonctionnement des gouvernements.

Un public mieux informé et plus exigeant est l'une des pressions qui s'exercent sur un gouvernement pour qu'il soit efficient. Cette pression est en partie le résultat des communications plus rapides que permet l'informatisation à l'échelle mondiale. Elle vient aussi de la faible croissance économique et de l'augmentation des taxes et des impôts qui, depuis le milieu des années 70, ont grevé le budget des ménages. Les familles qui ont été obligées de se serrer la ceinture pour joindre les deux bouts sont davantage enclines à surveiller de près la façon dont leur gouvernement dépense et à insister pour obtenir de meilleurs services publics en contrepartie de l'argent dépensé.

**L'amélioration du rendement est devenue un besoin pressant pour les gouvernements en cette fin du XX$^{e}$ siècle.**

L'énorme dette publique accumulée au cours des deux dernières décennies s'ajoute aux pressions exercées sur le gouvernement pour qu'il devienne plus efficient. Puisqu'une large proportion des recettes publiques doit être consacrée au service de la dette, les sommes affectées à la prestation des services doivent faire bien davantage pour maintenir le niveau de qualité sans qu'il ne soit nécessaire d'augmenter les taxes et les impôts. L'amélioration du rendement est donc devenue un besoin pressant pour les gouvernements en cette fin du XX$^{e}$ siècle.

# Les années 90 : des progrès évidents mais le dossier n'est pas encore clos



« Chaque progrès donne un nouvel espoir, suspendu à la solution d'une nouvelle difficulté. Le dossier n'est jamais clos. »
– Claude Lévi-Strauss,
*Le cru et le cuit*

## Introduction

Au milieu des années 90, je me demandais, dans ce même chapitre, comment la décennie resterait dans les mémoires. Je réfléchissais à la question de savoir si c'était « l'incertitude » ou la « transformation » qui décrirait le mieux le Canada des années 90, selon les réponses que l'on donnerait, au cours du reste de la décennie, aux préoccupations de l'époque : les différends constitutionnels, les difficultés financières, les bouleversements technologiques, la mondialisation.

**Somme toute, « la transformation » remplacera probablement « l'incertitude » dans les livres d'histoire comme slogan des années 90.**

Si je jette un regard en arrière en cette fin de 1999, je pense qu'il est juste de dire que nous avons accompli des progrès évidents à ces égards. Cela ne signifie pas pour autant que nous n'avons plus de préoccupations. La partie n'est pas encore gagnée. Je crois, somme toute, que « la transformation » remplacera probablement « l'incertitude » dans les livres d'histoire comme slogan des années 90.

Dans la section qui suit, je mets l'accent sur les changements survenus dans l'administration publique fédérale qui, à mon avis, a connu une décennie déterminante.

### Une décennie de changements profonds

L'administration publique fédérale a subi des changements profonds dans les années 90. Nous avons débuté cette période avec d'énormes déficits budgétaires et la crainte répandue que le Canada courait à la crise financière.

## Vision

*Nous sommes engagés à promouvoir, dans l'exécution du mandat que nous a confié le Parlement, une administration gouvernementale responsable, honnête et productive qui reflète un engagement envers le développement durable et, de ce fait, à produire des résultats positifs pour tous les Canadiens.*

## Mission

*Le Bureau du vérificateur général effectue, en toute indépendance, des missions de vérification et des examens qui fournissent information, assurance et avis objectifs au Parlement. Le vérificateur général vise ainsi à améliorer le contrôle parlementaire sur les deniers publics et à encourager l'emploi des meilleures méthodes de gestion dans l'administration publique.*

## Élaboration de la mission

*Dans l'accomplissement de notre mission,*
*nous voulons produire des résultats positifs en favorisant :*

- *un compte rendu juste et honnête de l'intendance du gouvernement à l'égard des ressources financières et autres;*
- *l'efficience et la productivité au sein de la fonction publique;*
- *la rentabilité des activités du gouvernement;*
- *la perception des recettes dues à l'État.*

*Par notre travail, nous voulons aussi :*

- *fournir une assurance objective à l'égard des questions jugées satisfaisantes ou insatisfaisantes;*
- *assurer la conformité aux autorisations;*
- *prévenir la fraude et la malhonnêteté.*

- Les efforts déployés par le gouvernement pour revitaliser la fonction publique se sont intensifiés récemment, mais la tâche est énorme et loin d'être terminée. Les années de réduction des effectifs et de restructuration ont créé des lacunes qui existent toujours. Les pratiques liées à la gestion des ressources humaines doivent être modernisées. En outre, une main-d'oeuvre vieillissante laisse présager d'immenses besoins en personnel au cours des années à venir. La réforme et le renouvellement de la fonction publique pourraient fort bien être le plus gros défi du gouvernement.

Les années 90 ont représenté une période de transition dans l'administration fédérale. Au moment où nous entamons une nouvelle décennie, nous devons viser à consolider nos réalisations et à continuer à aller de l'avant. En nous appuyant sur les réalisations de la dernière décennie, nous pouvons léguer à la postérité un Canada plus solide, comme nos ancêtres l'ont fait pour nous.

# Questions d'une importance particulière — 1999

## Points saillants

Au terme des années 90, le moment est venu de faire le point sur la situation actuelle et de réfléchir sur les réalisations de la décennie et les défis qui nous attendent au cours de la prochaine. Dans ce chapitre, je discute des changements survenus dans l'administration publique fédérale, plus particulièrement du processus de planification budgétaire, des pratiques de communication de l'information sur le rendement, des systèmes de gestion financière, des nouveaux mécanismes de régie et du renouvellement de la fonction publique. Les années 90 ont vu des progrès dans tous ces domaines mais des lacunes demeurent :

- Le processus budgétaire est plus ouvert qu'il ne l'était, mais l'horizon prévisionnel de deux ans à cinq ans sur lequel repose le budget est beaucoup trop court pour que l'on puisse tenir compte des répercussions à plus long terme des choix financiers qui sont faits, particulièrement dans le contexte du vieillissement de la population et des pressions financières que cela suppose. De plus, l'élimination en 1998 des plafonds de dépenses préétablis fait qu'il n'existe plus de mécanismes pour garantir l'examen continu des programmes.
- Il y a près de cinq ans, le gouvernement a pris l'engagement d'axer sa gestion et ses rapports sur les résultats. Même si, maintenant, ils énoncent de façon plus claire les objectifs des programmes et contiennent des mesures de rendement, les rapports des ministères continuent d'être surtout orientés vers les activités et les produits et la gestion n'est pas suffisamment axée sur les résultats.
- Les méthodes et les systèmes comptables utilisés actuellement au gouvernement ne fournissent pas d'information fiable et actuelle sur les coûts des activités ou des extrants. La Stratégie d'information financière est une initiative que le gouvernement met en oeuvre actuellement pour combler cette lacune. Cependant, la mise en oeuvre accuse des retards. Le gouvernement doit mettre les bouchées doubles s'il veut respecter son échéance.
- La prestation des services publics se fait de plus en plus par l'entremise de mécanismes autres que les ministères, souvent au moyen de partenariats avec d'autres administrations ou avec le secteur privé. Comme aucun ministre n'est alors entièrement responsable des résultats, ces mécanismes doivent prévoir de nouvelles façons de tenir le gouvernement responsable. Sans mécanismes redditionnels appropriés, ces partenariats peuvent nuire à la capacité du Parlement d'examiner minutieusement les activités du gouvernement et de l'en tenir responsable.

# Table des matières


Page

**Points saillants** 4

**Les années 90 : des progrès évidents mais le dossier n'est pas encore clos** 7

**Introduction** 7
Une décennie de changements profonds 7
La modernisation de l'administration publique 9

**Le processus budgétaire : meilleur mais toujours insuffisant** 10
Il est grand temps d'avoir une perspective à long terme 10
Dans un contexte d'excédents, des objectifs inconditionnels à court terme fondés sur des prévisions pessimistes peuvent avoir des conséquences néfastes 12
Un cadre financier pluriannuel peut encourager la discipline financière et la prise de saines décisions en matière de dépenses 14

**Sans une information de meilleure qualité sur les résultats des programmes gouvernementaux, les Canadiens ne peuvent savoir ce qu'ils obtiennent en contrepartie des impôts et des taxes qu'ils payent** 16

**L'amélioration du rendement passe par l'amélioration de l'information sur les coûts** 18

**Les nouveaux mécanismes de régie exigent de nouveaux mécanismes redditionnels** 20

**La revitalisation de la fonction publique est essentielle au succès de toutes les autres réformes de la fonction publique** 22

**Conclusion** 24

**Pièces**

1 Ratio des personnes jeunes et des personnes âgées à la population d'âge actif 12
2 Solde budgétaire : les prévisions comparées aux chiffres réels 13
3 Dates marquantes de l'engagement du fédéral en matière de communication de l'information sur le rendement 17

**Annexe du chapitre : Questions récentes et questions qui posent toujours problème**

La gestion en vue du développement durable : des progrès ont été réalisés mais des lacunes demeurent 26
La gestion durable des stocks de mollusques et de crustacés de l'Atlantique : avons-nous appris des erreurs passées? 26
Les frais d'utilisation : plus que des recettes du gouvernement 27
Les programmes de subventions et de contributions : la gestion est toujours lacunaire 27
La surveillance de la santé nationale : le manque de collaboration nuit à l'efficacité 28
Le bogue du millénaire : il faut demeurer vigilant 28
Possibilités d'économies 29

# Questions d'une importance particulière – 1999

Notre bureau a publié le premier volume du Rapport de 1999 en avril (10 chapitres).

En outre, notre bureau a fourni cette année :

- un rapport du vérificateur et des observations sur les états financiers du gouvernement du Canada;
- un rapport du vérificateur et des observations sur l'état des opérations du Compte de service et de réduction de la dette;
- quelque 90 rapports du vérificateur et des observations sur les états financiers des sociétés d'État, des établissements publics et d'autres entités fédéraux, des organisations et des gouvernements territoriaux, et d'organisations internationales.

En 1998–1999, notre bureau a terminé les examens spéciaux des sociétés d'État suivantes : Énergie atomique du Canada limitée, Défense construction (1951) Limitée, Société du Centre national des Arts, Via Rail Canada Inc., Administration de pilotage du Pacifique, Corporation commerciale canadienne, Société canadienne d'hypothèques et de logement et la Banque de développement du Canada. De plus, au cours de la période ultérieure allant d'avril à novembre 1999, notre bureau a terminé les examens spéciaux d'autres sociétés : Musée national des sciences et des technologies, Conseil canadien des normes, Corporation de développement des investissements du Canada, Société pour l'expansion des exportations, Marine Atlantique S.C.C., Société d'expansion du Cap-Breton et la Société du Vieux-Port de Montréal Inc.

Aux termes de l'article 11 de la *Loi sur le vérificateur général*, je peux réaliser des missions à la demande du gouverneur en conseil. Nous n'avons reçu aucune demande en 1999.

# Rapport du vérificateur général du Canada à la Chambre des communes — Septembre et novembre 1999

## Avant-propos

Je suis heureux de présenter le volume de septembre et novembre de mon rapport de 1999. Cet avant-propos est suivi de « Questions d'une importance particulière – 1999 » et des Points saillants qui sont tirés de tous les chapitres de cette année. Le dépôt des chapitres 11 à 19 inclusivement était prévu pour septembre mais a été reporté en raison de la prorogation du Parlement. Ce volume contient en outre 23 chapitres reliés séparément.

11. Portefeuille de l'Agriculture – Les frais d'utilisation
12. Agriculture et Agroalimentaire Canada – Une nouvelle moisson : la propriété intellectuelle dans la recherche
13. Défense nationale – Les matières dangereuses : la gestion des risques pour les employés et l'environnement
14. La surveillance de la santé nationale : les maladies et les blessures
15. La gestion d'une épidémie de toxi-infection alimentaire
16. Revenu Canada – Taxe sur les produits et services : le traitement des déclarations et la vérification
17. Le programme Travaux d'infrastructure Canada : Phase II et suivi de la vérification de la Phase I
18. Travaux publics et Services gouvernementaux Canada – Autres formes de prestation de services : l'impartition des services de gestion immobilière
19. Portefeuille de l'Industrie – L'investissement dans l'innovation
20. Pêches et Océans – Le saumon du Pacifique : la durabilité des pêches
21. La Stratégie d'information financière : l'état de préparation des ministères
22. Les caractéristiques des organismes de recherche bien gérés
23. La régie en partenariat : la reddition de comptes menacée
24. Le Fonds canadien d'adaptation et de développement rural : un exemple de régie en partenariat
25. La préparation à l'an 2000 : l'étape finale
26. Défense nationale – La conduite appropriée des affaires publiques
27. Défense nationale – Différents modes de prestation de services
28. Agence canadienne de développement international – Les contrôles financiers des projets
29. L'appui fédéral à la prestation des soins de santé
30. Les marchés de services professionnels conclus avec un fournisseur unique au moyen de préavis d'adjudication de contrat
31. Ministère des Affaires étrangères et du Commerce international – L'exécution de projets d'investissement dans quatre missions
32. Suivi des recommandations formulées dans des rapports antérieurs
33. Autres observations de vérification

# Avant-propos

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

L'honorable Gilbert Parent, député
Président de la Chambre des communes

J'ai l'honneur de vous transmettre ci–joint mon rapport annuel de 1999 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(3) de la *Loi sur le vérificateur général.*

Le vérificateur général du Canada,

L. Denis Desautels, FCA

OTTAWA, le 30 novembre 1999

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Rapport du

# vérificateur général du Canada

à la Chambre des communes

## Questions d'une importance particulière – 1999

Avant-propos et Points saillants

**Novembre 1999**

CA1
AG
-A55

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Chapters 11 & 12

CA1
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# Report of the Auditor General of Canada to the House of Commons

**Chapter 11**
Agriculture Portfolio – User Charges

**Chapter 12**
Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

**Chapter 11**
Agriculture Portfolio – User Charges

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Intellectual Property in Research

**September 1999**

*This September 1999 Report comprises 9 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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# Chapter 11

## Agriculture Portfolio

### User Charges

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 11–5 |
| **Introduction** | 11–7 |
| Focus of the audit | 11–8 |
| **Observations** | 11–9 |
| **Implementation of Government Policy Is Incomplete** | 11–9 |
| Improvements needed in program costing | 11–9 |
| Service standards are not widely used | 11–9 |
| Are the impacts of user charges well understood? | 11–13 |
| Exploring alternatives before establishing user charges | 11–14 |
| Consultation process has improved | 11–16 |
| Developing alternative fee structures | 11–17 |
| Changing fees is a lengthy process | 11–17 |
| User charges are not well integrated into strategic planning | 11–19 |
| Planning of user charges could be improved at the program level | 11–20 |
| Guiding principles for user charges can help | 11–20 |
| Determining private benefit and public good can be difficult | 11–21 |
| User charges can provide more than just revenue | 11–23 |
| Little review of performance | 11–24 |
| Dispute resolution processes are not well known | 11–24 |
| What opportunities are there to learn from experience? | 11–25 |
| Reports on plans and on performance fail to inform adequately | 11–25 |
| **Moratorium on New Fees** | 11–32 |
| Impacts of the moratorium | 11–32 |
| What action is possible? | 11–33 |
| **Conclusion and Recommendations** | 11–33 |
| **About the Audit** | 11–38 |
| **Inserts** | |
| Status and Decisions Facing Each Organization | 11–10 |
| Key Elements and Good Practices for Managing User Charges | 11–27 |
| **Case Studies** | |
| The Slow Pace of Change Has a Price | 11–18 |
| Integrating User Charges Into an Organization's Strategic Planning | 11–19 |
| Similar Programs – Dissimilar User Charges | 11–22 |
| Cost Recovery: Benefits Achieved Beyond Revenue Generation | 11–23 |
| **Exhibits** | |
| 11.1 User Charge Revenues Vary in the Agriculture Portfolio | 11–8 |
| 11.2 Cumulative Effect of Federal User Charges Varies by Sector | 11–14 |
| 11.3 A Significant Advance in Understanding Cumulative Fee Impacts | 11–15 |
| 11.4 Information on User Charges Has Limited Usefulness | 11–26 |

# Agriculture Portfolio

## User Charges

## Main Points

**11.1** We noted a number of good practices in the way Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency have designed and managed fees they charge to users of their services. But these organizations do not yet meet all the requirements of the government's policy on user charges. Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share.

**11.2** Our audit found that the organizations often view user fees primarily as a means of generating revenue, ignoring their potential to achieve other possible benefits. For example, the Canadian Food Inspection Agency often charges the same fee for inspections whether or not food inspectors have found deficiencies, even though an inspection that has found problems entails additional time. This provides no incentive for the industry to comply with regulations and thereby minimize the time government inspectors need to spend.

**11.3** The organizations we audited need to make major improvements in the way they report to the public, the industry and Parliament on their plans for user charges and on the results. Despite the fact that this is a contentious issue that has sparked a great deal of interest from Parliament, the organizations in most cases have not publicly explained why specific user charges were needed and how they would be applied. Nor have their reports provided enough information to allow readers to judge whether user charges are managed properly.

**11.4** The three organizations need to improve their management of user charges in a number of areas, including costing their services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into their strategic planning.

### Background and other observations

**11.5** In its 1997 Cost Recovery and Charging Policy, the federal government states that user charges should be implemented for "services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public, unless overriding policy objectives would be compromised." A key underlying principle is that user charges provide benefits much broader than the revenue generated, such as making services more responsive to users' needs.

**11.6** Organizations in the agriculture portfolio charge for many different services. For example, the Canadian Grain Commission charges the grain industry for weighing and inspecting grain destined for export. The Canadian Food Inspection Agency charges importers and exporters to inspect plants and plant products for pests or diseases. Agriculture and Agri-Food Canada charges owners of cattle that graze on community pastures for services it provides.

**11.7** User charges have been a focal point of much concern in the agriculture sector. Over the past five years, revenues from user charges in certain areas have increased by as much as 300 percent. Producers and the industry have objected to the way the fees were introduced and to the cumulative impact they have had. Some have contended that the fees were simply a tax.

**11.8** A moratorium on new fee increases was announced at the time the Canadian Food Inspection Agency was created, to be in effect until the year 2000. Officials of the three organizations have given many different

interpretations of not only how long the moratorium will last but whether it applies to other organizations in the portfolio. We note that the organizations we audited believe they are constrained from correcting even known inconsistencies among fees and responding to changes in their business environment. In our view, the period of the moratorium offers them an opportunity to reassess their current position, develop guiding principles and plan improvements.

**11.9** The organizations face specific challenges in that they recover fees from individuals they also regulate. It can be difficult to establish the amount that users of a service should be charged for the benefits they receive when the service also benefits the general public. There is a need for broader consultation, where possible, that takes into account the interests of both industry and the public. Those who pay fees want to influence how services are provided, and the organizations must ensure that the needs of all stakeholders are taken into account.

**11.10** The three organizations need to make key decisions on user charges and take action to resolve the following situations:

- Recent changes in its operations and in the grain industry have made the existing fee structure of the Canadian Grain Commission no longer appropriate.
- The Canadian Food Inspection Agency initiated fee increases but has not completed its plan for user charges. Consequently, commodity groups are paying different proportions of the Agency's costs for similar service, which represents inconsistent treatment.
- Agriculture and Agri-Food Canada has not explained adequately when, how and why user charges are implemented for each of its programs. Consequently, the reasons why some programs have user charges and other, similar programs do not remain unclear.

**The responses to our recommendations from Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission are included at the end of this chapter. Each of the organizations has said that it will act upon the recommendations that apply to it.**

## Introduction

**11.11** Federal user charges in the agriculture portfolio are not new. For more than 60 years, farmers have paid grazing fees to the Prairie Farm Rehabilitation Administration for their use of community pastures. And fees have been paid to the Canadian Grain Commission for almost 90 years to inspect grain destined for export.

**11.12** The major organizations in the agriculture portfolio who apply user charges are Agriculture and Agri-Food Canada (the Department), the Canadian Grain Commission and the Canadian Food Inspection Agency. User charges cover a wide range of services, from inspecting cattle slaughter operations to certifying product standards and quality, to administering loan guarantee registration. User charges for these organizations totalled $135.6 million in 1997–98, the seventh highest in the federal government, where the total was $3.937 billion.

**11.13** The proportion of their expenditures that the organizations finance through user charges varies considerably. The Canadian Grain Commission recovers close to its full costs. The Prairie Farm Rehabilitation Administration (a branch of Agriculture and Agri-Food Canada) recovers almost all direct costs of providing pastures for grazing and breeding services for cattle. At the same time, there are minimal or no user charges for many programs in the Department's Market and Industry Services Branch and Research Branch.

**11.14** The government defines external user charges as "all non-tax revenues related to the provision of goods, regulatory and non-regulatory services, or rights and privileges, from all sources, whether generated in Canada or abroad, from persons or organizations external to the federal government."

**11.15** In April 1997, the government revised its 1989 cost recovery charging policy to take a less prescriptive approach. The policy outlines several broad principles that departments and agencies must apply to user charges. First, they should charge for "services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public." This is designed to ensure that the general taxpayer does not pay the full cost of services that provide direct benefits to specific individuals or organizations.

**Federal user charges in the agriculture portfolio are not new.**

**11.16** The policy's second principle emphasizes that the benefits of user charges can go beyond revenue generation to better and more client-oriented services. The policy also advances the notion that user charges can serve as a market test of demand for services and can help reduce excess demand for "free" services.

**11.17** Government-wide initiatives have had an impact on user charges in the agriculture portfolio. The Program Review exercise of 1994–95 required departments and agencies to review each of their programs, with the aim of eliminating programs that were not really needed, improving service to clients and re-engineering programs to reduce overall spending. The government suggested that expenditure reductions could be accomplished through program cuts or by finding other sources of revenue. Each of the three organizations we audited has made significant expenditure reductions since Program Review, in some areas by as much as 20 percent.

**11.18** Revenues from user charges have increased substantially for the Canadian Food Inspection Agency since 1994–95, while changing less significantly for the other two organizations in our audit (see Exhibit 11.1). These increases, as well as fee increases from other departments and levels of government, have been met with strong opposition from producers and industry.

**11.19** The key concerns of stakeholders are the way the fees were introduced and the cumulative impact of the fees. Many

contend that user fees are simply another form of taxation. A few have said that user charges may distort the impartiality of regulatory activities: regulators may redesign programs to suit industry's wishes because industry is paying the fee.

**11.20** Parliamentarians have expressed similar concerns. User charges have been discussed in several hearings and reports by the agriculture committees of both the House of Commons and the Senate. Concerns about the impact of user charges have intensified with the severe pressures on incomes in the sector as a result of low commodity prices.

**Our audit asked the question, "How well are the organizations in the agriculture portfolio managing their external user charges?"**

### Focus of the audit

**11.21** Our audit focussed on activities surrounding user charges over the past five years in Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission. We looked only at their fees for services provided to users outside the government, and discussion in this chapter is limited to such "external user charges".

**11.22** In Agriculture and Agri-Food Canada, most issues pertaining to user charges for intellectual property in the Research Branch were distinct from issues facing the Department's other branches and the two other organizations. The results of our work on the Research Branch are reported in Chapter 12 of this Report.

**11.23** The Canadian Food Inspection Agency began operations in April 1997, combining the inspection activities previously carried out by three organizations — Agriculture and Agri-Food Canada, Health Canada and the Department of Fisheries and Oceans. Our audit examined programs with user charges, where relevant, both before and after the Agency's creation.

**11.24** In essence, our audit asked the question, "How well are the organizations in the agriculture portfolio managing their external user charges?" The specific objectives of the audit were to determine whether the three organizations we audited:

- have properly designed and managed user charges so as to achieve the government's objectives for user charges;
- are learning from experience through the regular review of information and experience gained in applying user charges; and
- monitor and report performance in a way that is clear and meaningful and allows Parliament to judge how well user

Exhibit 11.1

**User Charge Revenues Vary in the Agriculture Portfolio**




**Source:** Public Accounts of Canada

charges have been implemented and managed.

**11.25** The government's policy provided a framework for our audit criteria on implementing user charges. We built on the policy by reviewing best practices and literature from other sources, including the Organization for Economic Co-operation and Development (OECD). The key management practices required by the government's policy are broadly consistent with the international literature on user charges.

**11.26** Details of our audit objectives, scope and criteria are at the end of the chapter in **About the Audit**. Recommendations for corrective action by the three organizations are presented on pages 11–34 and 11–35. An insert on pages 11–27 to 11–32 summarizes our findings on some key elements of managing user charges, and notes some good practices that might be useful to other organizations in the portfolio or elsewhere in government.

## Observations

### Implementation of Government Policy Is Incomplete

**11.27** Although the three organizations we audited have put user charges in place, they have yet to fully achieve the expectations set out in the government's 1997 policy on external user charges. The majority of changes to the organizations' user charges predate the 1997 policy. Our audit presents observations and recommendations in areas where their management of user charges needs improvement to meet the expectations set out in the 1997 policy. As this section of the chapter discusses, those areas include costing practices, service standards, consultations and reporting of results.

**11.28** We recognize that the organizations we audited are very different from one another in the type of services they provide and the progress they have made in implementing the government's policy on user charges. While implementing user charges is an ongoing task, each organization is at a point where it needs to make key decisions on user charges. The current status and the decisions facing each organization are summarized in the insert on pages 11–10 to 11–13.

**Improvements needed in program costing**

**11.29** The Treasury Board Secretariat and our Office alike have often emphasized the importance of good costing systems. The appropriate charge for a service can be determined only when the full cost of providing the service is known. Proper costing can help program administrators deliver their programs more efficiently and make better-informed choices about whether and how best to undertake new services or change existing programs. We expected that the organizations would know the full costs of providing their services and would have a reasonable understanding of the different factors that could affect their costs.

**The three organizations have shown little improvement in the way they obtain and use cost information.**

**11.30** Over the last five years, the three organizations we audited have shown little improvement in the way they obtain and use cost information. They can roughly estimate the direct and overhead costs of delivering their programs, but have not calculated the full costs of the various services in each program. We found a reasonable costing system in only one program — the administration of Agriculture and Agri-Food Canada's Net Income Stabilization Account.

**Service standards are not widely used**

**11.31** Where user charges are applied, we expected that the organizations would have service standards. With few exceptions, our examination found that service standards are not used widely in programs with user charges. One — the Net Income Stabilization Account — does

**Service standards are not widely used.**

*(continued on page 11–13)*

## Status and Decisions Facing Each Organization

### Canadian Grain Commission

The Canadian Grain Commission has two major services — weighing and inspecting grain destined for export. Its primary purpose is to regulate grain handling and to establish and maintain standards for quality.

The Canadian Grain Commission has recovered the majority of its costs for decades, and close to its full costs for more than 10 years. The grain industry accepts that the regulated inspection and weighing services provided by the Commission are a private benefit to the grain industry, and that these costs are to be recovered fully. The portion of the Commission's business that is not considered to benefit solely the grain industry (mainly the Grain Research Laboratory) represents approximately 20 percent of the Commission's expenditures, half of which is recovered from the industry.

The existing fee structure was designed to recover all corporate overhead costs from the fees charged on grain shipments exported through seaports. Since then, however, shipping patterns have changed. Notably, in recent years more grain is being shipped from the Prairie provinces directly to the United States and not through the seaports. Some staff of the Commission were redeployed to provide services at primary elevators. The Commission's costs of providing the services remained relatively constant. However, the shift in shipping patterns meant that revenues decreased and, as a result, corporate overhead costs were no longer fully recovered; the fee structure was no longer aligned with the cost base. If fees had been adjusted more quickly, the Commission might have been able to avoid part or all of its deficit for the 1998–99 fiscal year, estimated at more than $10 million.

The Canadian Grain Commission has regularly reviewed its programs and its cost recovery about every five years. The most recent review came at a time when the Commission was confronting the fundamental changes in the grain industry and their resulting financial pressures. A major emphasis of the Commission's recent review was to better align its user charges with its services and those who benefit from them.

The Commission's review of its programs has gone a long way toward implementing the government's policy on user charges; however, action is yet to be taken to implement the review's recommendations. The recommendations include making short-term changes to operations and regulations in order to reduce the financial pressures on the Commission, and longer-term legislative and funding changes to give it the flexibility required to meet the changing needs of the grain industry. Whether it acts on the recommendations or not, we believe the Canadian Grain Commission can make additional improvements, especially in its costing of services.

| Cost recovery at the Canadian Grain Commission | ($ millions) | | | |
|---|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 | 1997–98 |
| Service fees | 54.5 | 45.4 | 41.7 | 50.1 |
| Other | 2.1 | 1.4 | 1.3 | 1.2 |
| **Total** | **56.6** | **46.8** | **43.0** | **51.3** |

### Canadian Food Inspection Agency

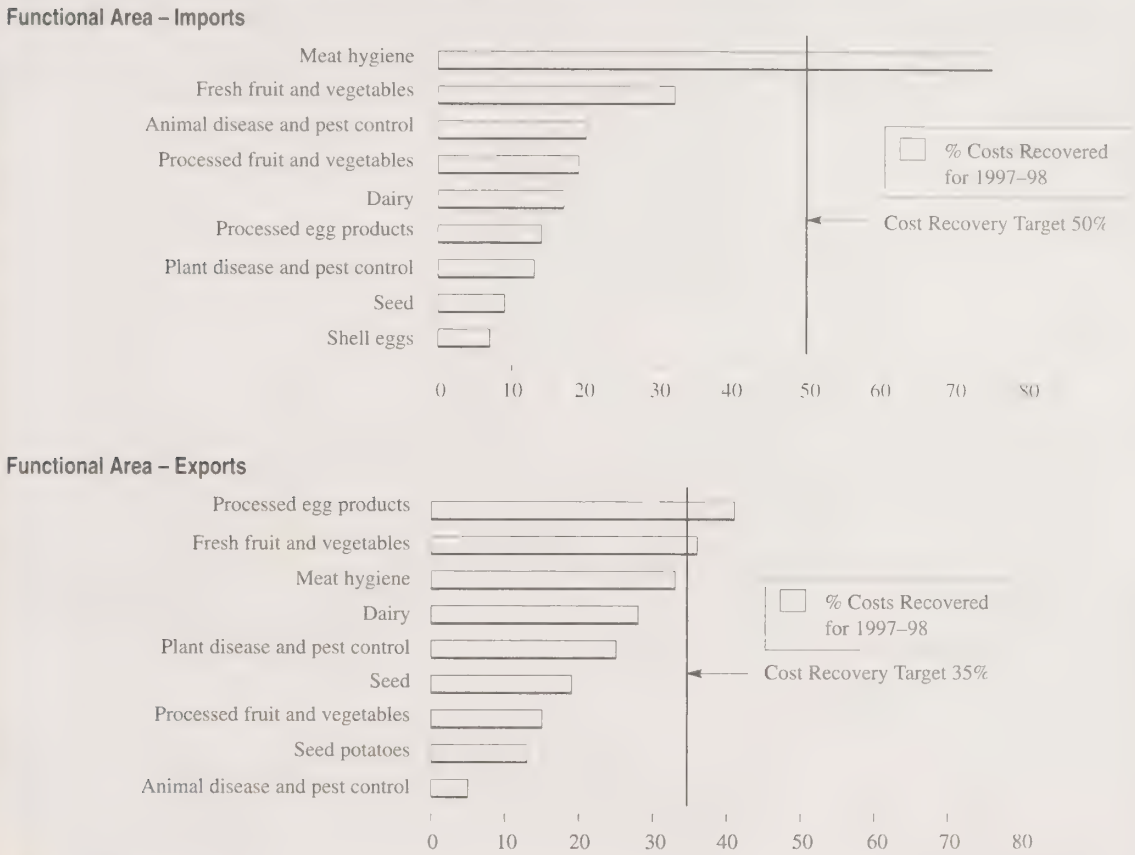
The Canadian Food Inspection Agency delivers inspection programs for food safety and animal and plant health. These programs are supported by laboratory and analytical services, and facilitate access for Canadian products to markets in other countries. Inspections are conducted across the country, at slaughter and processing facilities, warehouses, ports of entry and farms. Staff of the Agency also conduct inspections in other countries for enterprises that wish to import animals, plants or goods into Canada.

The major user charge initiative under the Canadian Food Inspection Agency began before the government-wide Program Review of 1994–95, while the majority of the services the Agency now provides were still under the Food Production and Inspection Branch of Agriculture and Agri-Food Canada. Referred to as the "Business Alignment Plan", the initiative set out to implement a comprehensive set of user charges consistently across commodity lines.

Targets were set to recover a percentage of costs for each functional activity, such as import or export inspection, based on an initial assessment of the proportion of private benefit received by users of the service. For example, the cost recovery target for inspection of imported fresh fruits was set at 50 percent, on the assumption that the inspection service provides the importers with the opportunity to sell their product in Canada while also protecting Canadians from the entry of potentially harmful pests and diseases.

The Agency has partially completed its initiative. Fees are in place, but the percentage of costs recovered is not consistent across commodity lines for similar services even though the cost recovery target is the same. This means that different commodity groups pay a different proportion of the costs for similar services. If there are reasons for the differences, such as the competitive nature of the industry, these have not been explained to the public. However, Agency officials acknowledged that the differences do indeed represent inconsistencies.

**Cost Recovery Rates Vary Significantly Across Commodity Groups**




**Note:** Commodity groups not shown above have no user charges for these functional areas.

**Source:** Canadian Food Inspection Agency

The Department's Food Production and Inspection Branch had very little time to implement its fee structure, as the funding voted by Parliament had assumed that user charges would be in place and would generate the planned revenue. This fiscal pressure continued after the Agency's creation, since it was expected to make the delivery of inspection services less costly to the federal government. Revenue from user charges was needed immediately, and identifying areas to reduce or avoid costs had secondary priority. At a higher level, however, the Agency's creation was itself designed as a form of cost reduction.

During its consultations with industry groups on user charges, the Food Production and Inspection Branch had been open about its immediate need to generate revenue and about the principles on which user charges would be based. The Agency subsequently set revenue targets for each commodity group. After presenting its initial proposals for fee structures, the Agency generally accepted counterproposals from industry as long as this did not jeopardize the overall revenue target. Accepting these additional proposals was partially responsible for increasing the number of individual fees to more than 1,600. The Agency recognizes that it is costly to administer this many fees and the associated regulations, and it hopes to streamline them in the future.

While the Agency pursued revenue generation vigorously, it also responded to industry's demands for new or more efficient ways of delivering services and it sought opportunities to avoid and reduce costs. Livestock grading is a prime example of cost avoidance that resulted in net savings to the government and industry.

The Canadian Food Inspection Agency manages one of the government's most complex sets of user charges. Previously, the Agency had established targets for recovering a percentage of inspection costs in functional areas such as import, export and domestic inspection. But it has yet to meet those targets for all commodities. Much of the Agency's focus in its first two years was to make the necessary organizational and program changes to bring together staff and programs from four different departments. Senior managers believe that these changes are largely in place, and they are now free to renew their concentration on user charges.

| Cost recovery at the Canadian Food Inspection Agency | ($ millions) | | | |
|---|---|---|---|---|
| | 1994–95 | 1995–96 | 1996–97 | 1997–98 |
| Animal health | 1.0 | 3.1 | 4.5 | 4.7 |
| Fresh fruit and vegetables | 2.6 | 2.5 | 3.9 | 4.8 |
| Livestock and poultry grading | 3.0 | 3.7 | 1.9 | 1.3 |
| Plant health | 1.1 | 2.4 | 3.1 | 3.5 |
| Seeds | 1.5 | 1.6 | 2.5 | 2.5 |
| Meat hygiene | 3.7 | 13.5 | 17.0 | 16.7 |
| Other (dairy, feed, processed products, etc.) | .4 | .5 | 1.2 | 2.3 |
| Fish inspection* | .8 | .9 | 2.5 | 6.1 |
| **Total** | **14.1** | **28.2** | **36.6** | **41.9** |

* Prior to 1 April 1997, fish inspection was carried out by the Department of Fisheries and Oceans.

## Agriculture and Agri-Food Canada

For the most part, each branch of Agriculture and Agri-Food Canada that we audited (Policy Branch, Market and Industry Services Branch and Prairie Farm Rehabilitation Administration) manages its own user charges. Each branch evolved separately and has a distinct history and line of business.

The Prairie Farm Rehabilitation Administration has been involved in cost recovery since 1939 (see Chapter 24 of our 1997 Report). User charges associated with its Community Pastures program are well developed. They compare with market rates and recover more than 80 percent of the program's direct costs. The remainder of the costs are attributed to the "public good" component — maintaining the pastures in an environmentally sustainable manner. The Prairie Farm Rehabilitation Administration is working toward recovering a greater percentage of the costs of irrigation services it provides in southwest Saskatchewan.

Costing is one area where the Prairie Farm Rehabilitation Administration still needs to improve, as it does not yet collect and allocate costs and overhead for each of its current and prospective services and programs.

The Net Income Stabilization Account administered by the Policy Branch represents the Department's greatest progress toward fully implementing the government's policy on user charges. It has developed a solid costing methodology (activity-based costing) that it can use to cost out possible changes to the program. The Net Income Stabilization Account has also shown evidence of good consultation with stakeholders, and has integrated service standards and measures of client satisfaction into its management culture. In 1995 the Net Income Stabilization Account announced to its national advisory committee that it intended to move toward full cost recovery.

The Market and Industry Services Branch has only one user charge, in connection with the *Farm Improvement and Marketing Cooperatives Loans Act*. This is a loan guarantee program that provides producers and their co-operatives with access through financial institutions to intermediate term credit at reasonable rates. The recent fee increase in 1999 was designed to recover the full costs of administration and loan defaults under the program.

It is not clear why certain programs recover full costs, others recover partial costs and still others recover nothing. For example, the Net Income Stabilization Account program recovers approximately 70 percent of its administration costs, while the Agriculture Income Disaster Assistance program does not. If program considerations suggest that something less than full costs should be recovered, those considerations need to be made clear to parliamentarians and stakeholders. Currently there is no set of guiding principles to ensure that user charges are implemented in a consistent way throughout the Department.

In other aspects of managing user charges, Agriculture and Agri-Food Canada uses reasonable consultation practices and has simplified fee collection, but needs to look for opportunities to reduce the length of time it takes to introduce or amend fees.

| Cost recovery at Agriculture and Agri-Food Canada | ($ millions) 1994–95 | 1995–96 | 1996–97 | 1997–98 |
|---|---|---|---|---|
| Farm Improvement and Marketing Cooperatives Loans | 2.8 | 1.9 | 2.4 | 2.6 |
| Net Income Stabilization Account | 5.5 | 5.4 | 7.6 | 8.2 |
| Prairie Farm Rehabilitation Administration | 11.8 | 12.7 | 13.0 | 13.0 |
| Research Branch | 1.5 | 2.5 | 3.1 | 3.4 |
| **Total** | **21.6** | **22.5** | **26.1** | **27.2** |

*(continued from page 11–9)*

routinely measure the services it provides against predetermined standards. The Canadian Grain Commission has developed service standards but has not reported whether they have been met. The Canadian Food Inspection Agency drafted service standards but has implemented them in only two main areas: the feeds program applies standards and compares performance against them, while fish inspection has adopted standards but does not compare performance against them.

**11.32** Clients want to know the level of service they will receive for the fees they pay, and they want to know that they will receive full value for their money. In a competitive market, the customer can choose the supplier who offers the best price, quality and service. In a regulated environment, where there may be only one supplier, the customer has no such choice. In those cases, communicating service standards and reporting performance against them serve as a form of accountability to the public and users of the service that helps to compensate for the lack of choice of suppliers.

**Are the impacts of user charges well understood?**

**11.33** Clients and stakeholders have had much to say about the impact of user charges on their businesses and livelihood. Although some of their comments may be simply a reaction to having to pay for something that used to be "free", a study performed by Agriculture and Agri-Food Canada does suggest that on certain industries the impact has been greater (see Exhibit 11.2).

**11.34** In accordance with the government's policy, we expected that the designers of user charges would use the information gained from impact assessments, including the potential impact on competitiveness. The federal government's Business Impact Test is a tool that can assist in these assessments. We found that the organizations in our audit do not use such tools on a regular basis.

**Impact assessments were imprecise and lacked quantification.**

**11.35** Most fees are established and enforced through regulations. In accordance with the government's regulatory policy, we expected that the intended benefits of new fees or fee changes would be compared with the expected cost of implementing them. However, the assessments did not routinely identify or include benefits, especially indirect or societal benefits. Where such non-monetary benefits have been anticipated, they have not been well documented or communicated to stakeholders or parliamentarians. These benefits and costs — including the costs of implementing and administering the fees — need to be assessed.

**11.36** The impact assessments of proposed regulatory amendments that we

reviewed were imprecise and lacked quantification. Further, we had difficulty finding evidence in the assessments to support their frequent contention that the fees would have little or no effect on competitiveness because they were such a small percentage of the costs of the products inspected. The impact assessments contained little information that would help the reader understand the fees' expected impacts.

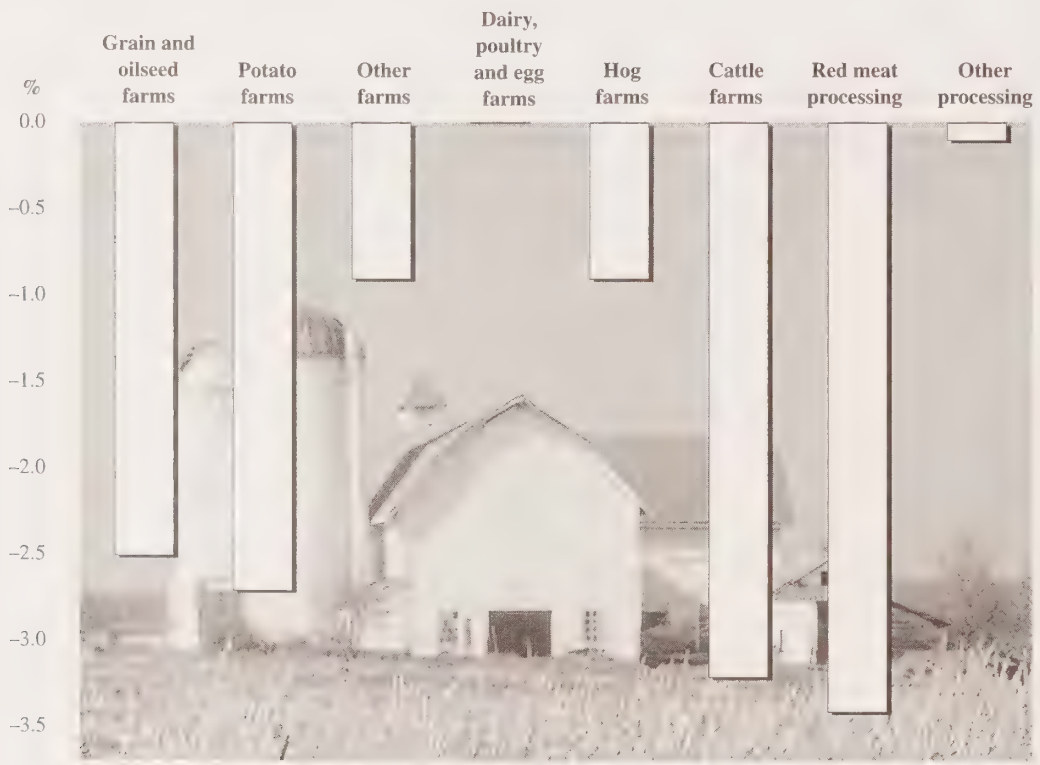
**11.37** While individually each fee may seem insignificant, in total they can amount to a significant portion of net income in some industry sectors. The revised government policy states that departments and agencies must "work with clients to assess the cumulative impact of multiple fees from all federal sources, and assess proposed fees in that context." Agriculture and Agri-Food Canada has analyzed the cumulative impact of the user charges in its portfolio (see Exhibit 11.3).

### Exploring alternatives before establishing user charges

**11.38** There may be alternatives to imposing user charges, and these need to be explored before the charges are put in place. Clients do not want revenue from user charges to pay for inefficiencies in the way programs are delivered. We expected that the organizations would analyze and consider options for reducing

Exhibit 11.2

**Cumulative Effect of Federal User Charges Varies by Sector**




**Source:** Impact of Selected Federal Cost Recovery Initiatives on the Agri-Food Sector, Agriculture and Agri-Food Canada

or avoiding costs, recognizing that subsequent consultations with users might identify additional options, and that they would be able to demonstrate that activities are delivered efficiently. Avoiding costs means "getting out of the business" or taking measures to avoid cost increases that would otherwise be incurred. Reducing costs requires that service levels be lowered or else delivered more efficiently. An example of cost avoidance as an alternative to additional user fees is described in the case study on page 11–23, Cost Recovery: Benefits Achieved Beyond Revenue Generation.

**11.39** Assessing alternatives includes determining which alternative best meets

Exhibit 11.3

**A Significant Advance in Understanding Cumulative Fee Impacts**

In the past, very little work was done to determine the combined impact on individuals and companies of the various user fees they pay. Parliamentary committees, stakeholders and the Treasury Board Secretariat have called on federal organizations to study the cumulative impact of federal user fees on specific sectors.

Some observers argue that concern about fee impacts on industry is misplaced — that as long as the fee is appropriate and industry is benefiting from the government service, then user fees are a legitimate cost no different from other costs of doing business. In our view, however, analysis of fee impacts is important because it helps decision makers to make informed decisions about user fee policy — regulators must ensure that the combined impact of user fees does not jeopardize program objectives.

In 1998, Agriculture and Agri-Food Canada was the first department to undertake a cumulative impact study of federal fees. The study has been of considerable interest to the agriculture sector, and was the subject of a hearing by the House of Commons Standing Committee on Agriculture. The study examined the impact of fees on the agriculture and agri-food sector, using economic modelling to identify how fees are passed on to customers and suppliers. The study concluded that impacts vary among different industries within the sector, reducing net operating income anywhere from virtually zero to 3.4 percent.

**Lessons were learned for future studies**

The experience gained from conducting the study highlighted a number of lessons for similar future studies:

- Several aspects of the project design proved particularly effective. Other fee-charging federal organizations and industry stakeholders were extensively involved in decisions on the project design. Macro-level economic analysis was supplemented by a micro-level analysis of potential impacts on illustrative farms and food-processing companies, which helped identify the differential effect of fees on different users.
- The analytical methodology was based on reasonable economic principles adapted from recent studies by the Department and by the Organization for Economic Co-operation and Development. The methodology, however, was not explained well in the report, nor was the analysis documented adequately. This made it impractical for us to verify the calculations, and could hamper future studies that attempt to build on the approach.
- A sensitivity analysis would have shown how sensitive the findings were to changes in assumptions and design parameters and thereby helped to build a better understanding of the reliability of the study's results.
- Obtaining good data from other federal departments and clarifying data definitions was a time-consuming process. Standard data and definitions across government would greatly facilitate future cumulative studies.

**More needs to be known about fee impacts**

The 1998 Agriculture and Agri-Food Canada study significantly advanced knowledge about user fee impacts. However, some important questions were not addressed, given that the study scope was already ambitious. No policy analysis was conducted of what changes, if any, were warranted in user fee policy in light of the study's results. Future studies in the agriculture and agri-food and other sectors need to examine whether user charges are a significant factor in international competitiveness, and need to consider refining the analytical tools used to capture secondary fee impacts and changes in industry behaviour.

There is also an important opportunity to convert the study methodology into a tool that would assist in the impact analysis of individual proposed fees. Until the study, impact analyses did not examine how fees are passed from the fee payer on to customers and suppliers.

the objectives of the organization, the program and the needs of all stakeholders. Good costing systems are needed to assess alternatives properly.

**11.40** We found that the organizations in our audit have in place or are considering a number of new and creative ways to deliver mandatory services. On a larger scale, the Canadian Food Inspection Agency's creation was itself a major cost reduction initiative, designed to reduce government spending by $44 million without increasing user charge revenues. However, we found little evidence to suggest that the organizations analyze options such as cost avoidance in sufficient depth before user charges are applied.

**Consultation process has improved**

**11.41** We expected that the organizations would implement the government's policy that departments must undertake "meaningful and effective" consultation with clients throughout the fee-setting process. "Meaningful and effective" means that clients believe their concerns have been given a fair hearing and that they understand the rationale for the fees.

The framework for consultations has improved over the past five years.

**11.42** In the absence of appropriate consultation, there is a risk that opposition to a proposed fee could derail a user charge initiative and result in lost revenue to the Crown. The organization also risks charging an inappropriate amount or charging the wrong party. A further risk is that the organization will miss valuable advice from clients on how it can improve the service.

**11.43** Clients often mount strong opposition if they believe fees are being imposed unilaterally. They are more accepting when the fees provide an agreed-upon level of service that clients identify as a private benefit to them.

**11.44** We found that the framework for consultations has improved over the past five years. Agriculture and Agri-Food Canada and the other organizations have made an effort to ensure that consultations are properly structured. Large and small producers and industries are better represented in recent years, although smaller producers find it costly to take time away from their business for consultations.

**11.45** Clients who pay the fees — the private beneficiaries of the service — have been represented in consultations by their national associations. However, apart from government officials protecting the interests of the public, there has been little representation of the beneficiaries who do not pay fees. In the consultations held during its recent review, the Canadian Grain Commission was successful in engaging some of the broader beneficiaries (producers) beyond those who pay the fees (grain handling companies). The Canadian Food Inspection Agency has attempted to engage consumer groups in consultations on food issues, but with limited success. When representation of the public good is relatively low, the results of consultations may be perceived to favour industry.

**11.46** Nevertheless, we found that consultations were generally open and that feedback was provided to the consultation groups on a timely basis. The government organizations involved have changed fee structures or amended fees in response to stakeholder concerns, as well as altering the way they deliver services.

**11.47** At the same time, however, a number of stakeholders who participated in consultations with the Canadian Food Inspection Agency told us that in their view, the Agency had used the meetings not so much to consult as to announce its planned fee increases.

**11.48** While their consultation processes have improved, the three organizations could make them more effective by using them as a regular, ongoing means of sharing information

about program performance and future objectives. Client satisfaction can be improved with proper consultation and reporting of results against service standards.

**Developing alternative fee structures**

**11.49** We expected that organizations would consider alternatives to setting a uniform fee for all transactions. There is an inherent trade-off in choosing between a uniform fee with simple administration and a more complex fee that costs more to administer but better meets the clients' needs and the program objectives.

**11.50** The organizations in our audit did attempt, usually during the consultation process, to ensure that their fees were structured to meet users' needs. Examples from the Canadian Food Inspection Agency include lowering fees for smaller enterprises and basing charges on the length of time it takes to deliver the service.

**11.51** While the organizations have responded to their clients' needs, they have not adequately considered the costs of doing so. The Canadian Food Inspection Agency now charges more than 1,600 fees. Besides the cost of delivering the services, there are additional costs to maintain regulations and administer invoices and fee collection, as well as the hidden costs to both staff and the clients of the Agency in keeping track of the fees and filling out the proper forms. The Agency has not estimated these costs, but it needs to consider them in choosing one fee structure over another.

**11.52** One area where the organizations have been able to keep costs low is the collection of fees. Some programs have been designed to accomplish this, while others have improved their collection processes.

**Changing fees is a lengthy process**

**11.53** We expected that changes to fees would be implemented in a timely manner, but we found that the process of implementing new fees and fee amendments is very slow. It is not uncommon for regulatory changes to take more than two years. Indeed, recent changes to the fee under the *Farm Improvement and Marketing Cooperatives Loans Act* program took almost four years from the initial proposal until the regulation was in place (see the case study on page 11–18, The Slow Pace of Change Has a Price).

**11.54** Fees are normally established following the regulatory process, which includes publication in the Canada Gazette. The statutory framework governing user fees includes the *Constitution Act,* which provides that legislation for any tax or charge must originate in the House of Commons, various other Acts that confer authority to establish and amend fees in relation to specific activity, and section 19 of the *Financial Administration Act*, which permits the Governor in Council to set fees or to authorize ministers to set fees by order. This regulatory process involves various steps that, while protecting the public from the indiscriminate and arbitrary application of fees, can often be lengthy and burdensome.

**The process of implementing new fees and fee amendments is very slow.**

**11.55 Streamlining is possible but would require better disclosure.** Some streamlining is possible — the *Canadian Food Inspection Agency Act* allows the Minister of Agriculture and Agri-Food to set fees after consultation and publication of the proposed fee in the Canada Gazette. The Agency has used this provision to a limited extent for technical changes but has not yet used it to change fees, as most are related to other legislation. The Agency expects that recently tabled amendments to the Acts it administers will resolve this.

**11.56** Any streamlining would need to be balanced, so that parliamentarians and external stakeholders would have sufficient opportunity — through impact

analysis and better reporting — to scrutinize user fees adequately.

**11.57** Delays in implementing fee changes can have a significant financial impact on the organization as well as its clients, in the form of possible underpayment or overpayment of fees in the meantime (depending on whether the changes proposed were to raise or lower the fee).

**11.58** Delays can actually work against the interests of users who pay fees. For example, in 1997 the Canadian Grain Commission initiated a reduction of the grain receival service fee. From design to implementation, the change took

## The Slow Pace of Change Has a Price

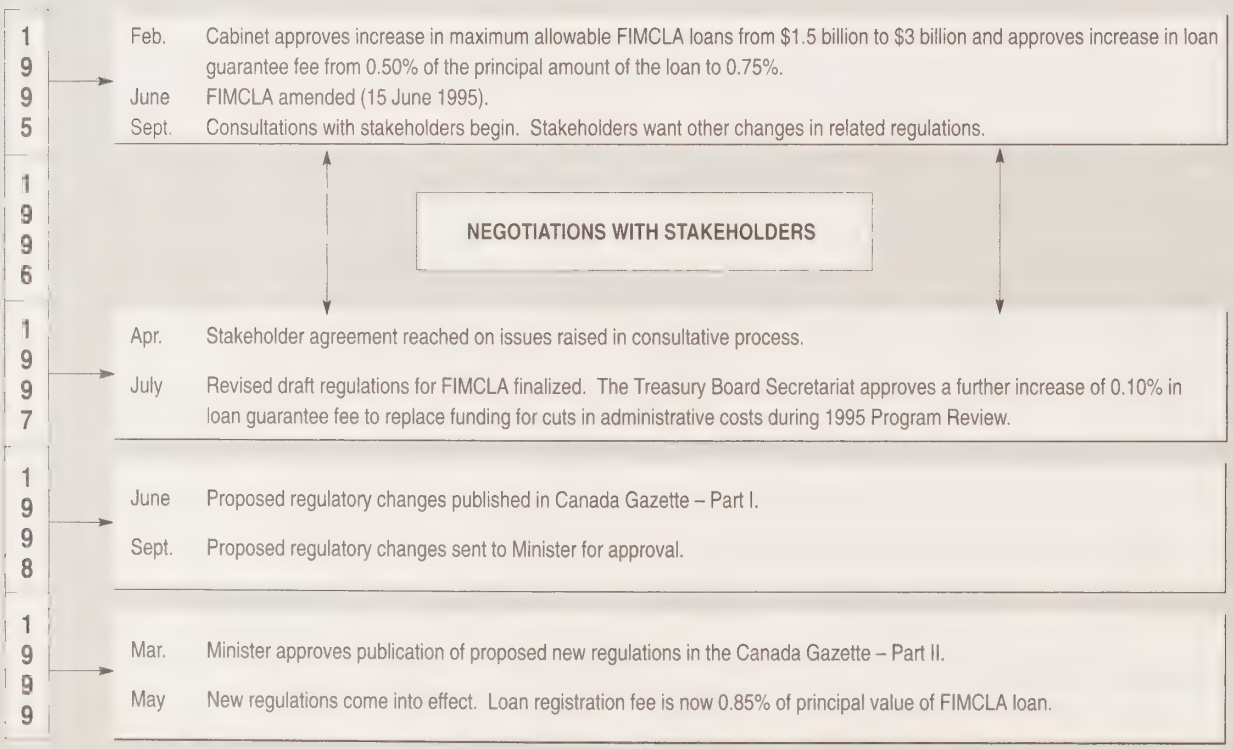
Administrators of the *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program recently introduced several regulatory changes, including an increase in user charges and expanded criteria for program eligibility. These changes were almost four years in the making.

The chronology below illustrates the long road to regulatory change for this latest initiative.

The regulatory process was not solely responsible for the slow progress in making these changes. Three other factors created further delays:

- The consultation process was unusually long. During this time, additional requests for amendments were proposed by stakeholders.
- From the inception of the process to its conclusion, three different managers were responsible for the FIMCLA program.
- The impact of low commodity prices worsened in 1998, and was an external factor that reasonably could not have been planned for or anticipated.

This case demonstrates that regulatory change does take time and that other factors can further slow the process. Officials need to anticipate developments and plan well ahead in order to ensure that their programs (and any related user charges) continue to achieve their intended objectives and remain responsive to users' needs. In this case, stakeholders had to wait two years to gain access to program changes they had agreed to back in April 1997. As well, approximately $3.5 million in additional registration fees were lost to the Crown from April 1997 to May 1999 as a result of these delays.



14 months — 4 months longer than the Commission had anticipated. When fees are being reduced with the agreement of all stakeholders, a more streamlined process would benefit everyone.

**11.59 Fee structures inhibit responsiveness.** As a delay in a fee change becomes extended, there is a risk that revenues will no longer offset expenses as intended, thereby increasing financial risk to the organization. This risk is more significant for the Canadian Grain Commission than many government entities that charge user fees, as it relies almost entirely on fees for its funding. In addition, the Commission has little control over the time it takes to change fees; this is dictated by the regulatory process. A streamlined regulatory process is needed, or else a more dynamic way of adjusting fees in response to changes in costs.

### User charges are not well integrated into strategic planning

**11.60** We expected that the organizations would have a comprehensive and consistently applied strategy for user charges, with clear, achievable objectives that promote the efficient allocation of resources. Moreover, the Treasury Board expected organizations to include a strategy for cost recovery in their 1998–99 business plans.

**11.61** A user charge strategy is intended to identify activities where the organization could introduce user charges, and areas where overriding policy objectives would take precedence.

**11.62** Of the organizations we examined, only the Canadian Grain Commission has communicated a user charge strategy to parliamentarians and stakeholders as part of its 1998–99 review of programs (see case study on this page, Integrating User Charges Into an Organization's Strategic Planning).

**11.63** Beyond having a user charge strategy, an organization needs to integrate user charges into its key decisions at the program and organizational levels and make it part of its management culture. User charges are a management tool — one of many used to achieve an organization's objectives. Our

### Integrating User Charges Into an Organization's Strategic Planning

In 1998, the Canadian Grain Commission began a comprehensive review of its programs. The objective was to confirm the Commission's responsibilities and to update programs to ensure that its services would remain effective, economical and efficient. The review resulted in a report recommending changes to the way services are provided and funded, including user charges.

The process followed by the review shows how an organization can integrate user charges into its strategic planning:

- It was comprehensive: each service offered by the Canadian Grain Commission was reviewed. It examined in depth a number of critical questions, including whether or not to retain a program outside the Commission's core mandate, and the potential savings and impacts if the program were to be terminated; how to deliver retained programs more efficiently or at lower cost; the appropriate approach to recover the cost of the programs, and the revenue target for each; the priorities for allocating resources; whether there were new programs or services with revenue-generating potential that would fit with the Commission's core mandate; and whether changes to the *Canada Grain Act* were needed.
- It considered fundamental changes such as cost reduction, cost avoidance and alternative fee structures.
- It used staff from other sections of the organization to reduce bias. (A review team was established for each group of services, headed by senior staff from outside that group of services.)
- Consultations were extensive and well managed. A stakeholder advisory board was established that included representation from all stakeholders. Cross-country consultations were also held.
- Senior management buy-in was perceived as sincere. Both staff and stakeholders told us that senior management supported the review process.

The success of the review may not be known for some time. The Commission has received authority to implement fee changes in its optional services, but in its regulated services this must wait until the end of the moratorium on user charges. However, the review process itself serves as an example of a good management practice.

examination found that the organizations present little information on user charges in their business plans, beyond amounts shown as forecast revenue.

**Planning of user charges could be improved at the program level**

**11.64** To ensure that their strategic plans are reflected in their programs, organizations normally use planning frameworks that produce a strategic plan, a business plan and individual program plans. We found little evidence that the organizations in our audit consider user charges in any planning at the program level except to plan specific fee initiatives. If a strategy for user charges is not linked clearly from the strategic plan to individual program plans, user charges might be omitted from the design of new programs or applied inconsistently among existing programs. This can result in inefficiency or in failure to achieve the strategic objectives.

Without a user charge strategy, user charges may be applied inconsistently among programs.

**11.65** Organizations have included user charges in their planning in response to particular circumstances, but they need to do it on a regular, ongoing basis. For example, the Canadian Food Inspection Agency has not updated its user charge plan regularly, although a comprehensive plan was used when the cost recovery initiative was introduced in 1994.

**11.66** Horizontal issues such as user charges need to be addressed in a similar way throughout the organization. We noted that, in the past two years, Agriculture and Agri-Food Canada has done a lot of work to establish a Performance Framework that sets out how the Department plans to meet its objectives. The Framework addresses several cross-cutting issues, such as integrating environmental considerations into decision making, but does not mention user charges and the efficient delivery of programs. The Framework or some other vehicle could be used to ensure that the Department's objectives for user charges are achieved consistently.

**11.67** Planning for user charges at the program level usually concentrates on specific fee initiatives. Not considering user fees in annual planning at the program level means that opportunities can be missed to implement new fees or reduce existing fees.

**Guiding principles for user charges can help**

**11.68** An important part of developing a user charge strategy is articulating the principles that support it and that will guide its implementation. Each of the organizations has various managers responsible for designing or modifying programs. In order to ensure that the strategy for user charges is delivered consistently throughout their organization, managers need guidance on how to interpret the government's policy and apply it to their program's particular circumstances.

**11.69** User groups also benefit from guiding principles, which can serve as "rules of the game". They provide important information to stakeholders, giving them a framework to judge whether existing or proposed user charges are fair and appropriate. Clearly articulated and publicly disclosed principles can encourage the acceptance of user charges among user groups and deflect attempts by certain user groups to avoid them.

**11.70** The Canadian Food Inspection Agency's "General Principles for Cost Sharing" were established in February 1994, while the inspection services were still part of the Food Production and Inspection Branch of Agriculture and Agri-Food Canada. Some of the broad principles, similar to the more recent government policy on user charges, stipulated that:

- the private individual or enterprise who used a service or received an identifiable economic benefit from the

Branch was expected to pay the government's costs of providing that service;

- fees should not be viewed as a source of general government revenue;

- consistency across commodities, programs and functions should be an objective;

- fees charged should not exceed the cost of providing the service;

- the development and implementation of fees should be a transparent and open process; and

- fees should not affect the quality, safety or reliability of agri-food products, and should not interfere with international trading requirements.

**11.71** The Food Production and Inspection Branch had also established guides or targets for determining the relative proportion of private benefit and public good in each functional area, which the Canadian Food Inspection Agency continues to support. It was assumed that there was an element of private benefit in all the services provided by the Branch unless it determined otherwise. For the private benefit portion, targets (percentages to be recovered) were set for functions such as import and export inspections, registration of establishments, labelling, and overtime.

**11.72** Together, these principles and targets represented a positive step and helped gain faster acceptance of new fees and fee increases from 1994 to 1998. However, the principles have not been updated since the creation of the Canadian Food Inspection Agency. Groups from each of the three originating departments brought their own practices and experience to the Agency; it is important that the Agency adopt the best of these in managing its user charges and services.

**11.73** We found that Agriculture and Agri-Food Canada lacks guiding principles (see case study on page 11–22, Similar Programs – Dissimilar User Charges). The Canadian Grain Commission has had guiding principles for its user charges since 1994.

**Determining private benefit and public good can be difficult**

**11.74** One of the most difficult aspects of implementing user charges for a service is determining what proportion of the benefit is received respectively by the users and by the general public. The decision can significantly affect the size of the fee that users will pay.

**11.75** We expected that each of the organizations we audited would have established criteria on which to base the allocation of private benefit and would have clearly communicated those criteria to stakeholders. Determining the relative proportion of public good to private benefit is a highly judgmental process, and it is important that the people who pay the fees understand and accept the way the charges are formulated.

**11.76** As we have noted, the Canadian Food Inspection Agency used a "rule of thumb" to determine the amount of private benefit in the services it provides. With few exceptions, it set cost recovery targets ranging from a low of 10 percent for some activities to almost full cost recovery for services it judged to provide an entirely private benefit.

**11.77** As noted in our 1996 Report Chapter 9, Animal and Plant Health: Inspection and Regulations, the Department (and later the Agency) was committed to developing criteria for use in estimating the private benefit associated with each functional area of service; the Agency has not yet done this. Likewise, Agriculture and Agri-Food Canada and the Canadian Grain Commission have not developed or explained how they identify and value the public and private benefits of a service.

## Similar Programs – Dissimilar User Charges

**How would guiding principles help to clarify important decisions about user charges and promote consistency in an organization?**

Consider two programs operated by the Marketing and Industry Services Branch of Agriculture and Agri-Food Canada — the *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program and the Cash Advances program. Both programs share many similarities and both confer private benefits on program participants. Yet the user charges for the two programs are at opposite ends of the spectrum. The Department has no user charge principles or other publicly available information that explains the rationale for these differences.

The inconsistent treatment of user charges in these two programs may have very good reasons, such as overriding policy considerations. However, it is important that the Department be clear about how it determines when user charges should apply, and then disclose, where appropriate, the nature of policy considerations or other factors that played a role in determining the amount to be charged. A set of clear guiding principles would help users understand such differences and would also help ensure consistency across the Department.

| | *Farm Improvement and Marketing Cooperatives Loans Act* Program | Cash Advances Program |
|---|---|---|
| **Nature of program** | Loan guarantee | Loan guarantee |
| **Maximum federal liability** | 95% of amount guaranteed | 85% to 99% of amount advanced, depending on default history of producer organization |
| **Program objective** | Increase the availability of medium-term loans for improving and developing farms and for processing, distributing or marketing of farm products by co-operative associations | Make short-term cash advances available to producers of storable crops at harvest time, allowing them to hold the product until later in the year when market prices may improve |
| **Private benefits** | • Increased returns to producers (long-term)<br>• Enhanced availability of medium-term credit<br>• Reduced interest rate | • Increased returns to producers (in current crop year)<br>• Interest-free loan up to $50,000<br>• Reduced interest rate for advances above $50,000 |
| **Average loan** | $22,000 | $20,000 |
| **Main program delivery agent** | Commercial lending institutions | Producer organizations |
| **Main federal costs** | • Program administration<br>• Defaults | • Program administration<br>• Defaults<br>• Interest on advance of first $50,000 |
| **Delivery agents have user charges?** | YES | YES |
| **Federal user charges permitted by enabling legislation?** | YES | YES |
| **Federal user charges as a % of full costs** | **100%** | **NIL – no federal user charges** |

**User charges can provide more than just revenue**

**11.78** Non-monetary benefits can be achieved if fees are designed to capture them. The organizations are achieving them on a limited basis, but their practices could be expanded (see case study on this page, Cost Recovery: Benefits Achieved Beyond Revenue Generation). As noted previously, food inspectors often charge the same amount for inspections that have found deficiencies as for those that have not, even though finding problems entails additional inspection time. This provides no incentive for the industry to comply with regulations and thereby minimize the amount of time government inspectors need to spend.

**11.79** We found evidence that the design of some user charges has worked against the desired behaviour. For example, fish processors require an export certificate in order to export their product. If there is a problem with the product, its packaging or labelling, and no export certificate is issued, a fee is not charged. In order to receive the certificate, the processor must correct the problem and request another inspection. It is possible that inspectors could inspect the same product three or more times but charge a fee only when they issue the certificate. If the product continues to fail the inspection and no certificate is issued, the processor is not charged for any of the inspections.

**11.80** In summary, the Canadian Food Inspection Agency has considerable

## Cost Recovery: Benefits Achieved Beyond Revenue Generation

The Treasury Board policy emphasizes that user charges can bring benefits beyond the revenue they generate. The case of livestock grading services demonstrates the broader benefits that are possible.

User charges for federal livestock grading services were introduced in 1985. Even though fees were low at $0.20 per beef carcass and $0.09 per hog carcass, the demand for grading services declined significantly. This demonstrated one of the benefits of cost recovery — users who must pay for a service decide quickly how much service they really need.

In 1994, the beef industry and the hog industry were notified that because the government viewed grading to be a 100 percent private benefit to industry, user charges for grading services would increase annually to reach full cost recovery by 2000. This was based on the judgment that grading is an assessment of the quality of the product and not of food safety. In the face of full cost recovery, with charges estimated to be about $1.40 to $1.44 per beef carcass and approximately $0.30 per hog, the beef industry decided to form the Canadian Beef Grading Agency (CBGA), a private non-profit corporation. The beef industry was convinced that it could maintain standards of accuracy and integrity at a much lower cost. The hog industry decided that it no longer needed federal grading standards because hog grading was used only as a mechanism of settlement between producers and packers.

Federal beef-grading regulations remain in force. The role of the Canadian Food Inspection Agency in beef grading is now limited to a national audit role, as part of its ongoing accreditation of the Canadian Beef Grading Agency. The Canadian Food Inspection Agency also assigns a federal designation to graders, based on training provided by the CBGA.

**Benefits Achieved**

The Canadian Beef Grading Agency has been able to lower grading fees three times in the three years it has been in operation. It has been able to do this by significantly reducing the number of graders it needs to carry out its services and by reducing corporate overhead. For example, one large plant that had nine graders or grader/inspectors before the CBGA began now has only two graders working full time and one part time. The average fee it charges to industry for beef grading has been reduced to less than $1 per carcass.

Because grading was not linked to its core services for food safety, the Canadian Food Inspection Agency was able to devolve the grading function and thus avoid the associated costs. Between 1995 and 1997, it was able to reduce all but one of its staff assigned to beef and hog grading — a total of 87 full-time equivalents.

**Benefits Need to Be Identified Systematically**

There is a widespread view that user charges are no more than a way to generate revenue — simply a tax by another name. Clearly, there are cases where broader benefits have been achieved. The audited organizations need to evaluate the extent of these various benefits across their programs and to identify and publicize user charge success stories.

opportunity for using its fees to help achieve its program objective of fostering industry compliance and, at the same time, to better reflect the costs of providing the service.

**Little review of performance**

**11.81** We expected that the organizations would measure their performance to determine, among other things, whether they were delivering programs efficiently. The Prairie Farm Rehabilitation Administration uses direct feedback from clients in a limited way to measure its performance in individual projects. Except for the Net Income Stabilization Account, which reports budget levels, business objectives and results to its national advisory committee, none of the other fee-charging programs we examined have developed measures of program efficiency. As a result, they are not in a position to demonstrate to clients that the programs are being delivered efficiently and that fee levels do not reflect the costs of inefficiency.

**The organizations have not developed measures of program efficiency.**

**11.82** Possible measures of efficiency could include:

- benchmarking against comparable organizations;
- comparison with similar activities within the organization;
- comparison with past performance; and
- in-depth reviews of specific programs.

**11.83** **Program delivery needs to be monitored.** Another reason to review program performance is to make sure that user fees are being applied as they were designed. In one service of the Agency, product label registration, we found that regulations were interpreted in a way that maximized fee revenue even though this was not consistent with the intent of the fee's original design or the amount of work entailed in providing the service.

**11.84** Agriculture and Agri-Food Canada, through its Review Branch, has the capacity to conduct this kind of review, but it has not used this capacity to review the performance of its user fees. The Canadian Food Inspection Agency recently formed an audit and review directorate and will have the capacity to perform such reviews in future years.

**11.85** **Have benefits been achieved?** Review of programs with fees is also needed to determine whether charging users has achieved the intended benefits. Communicating that information to stakeholders and parliamentarians, especially where non-monetary benefits can be identified, can provide some assurance that the fees are more than just a revenue source.

**Dispute resolution processes are not well known**

**11.86** We expected that the organizations would have established dispute resolution processes to deal with complaints and disagreements over user charges. Such a process is required under the government's policy and is important to clients, since it is often their only recourse if they are dissatisfied with a mandatory (regulatory) service.

**11.87** The Canadian Food Inspection Agency has established a process for appeals and has published the process. However, most of the Agency's clients we interviewed said they did not know that an appeal process existed.

**11.88** The Canadian Grain Commission and Agriculture and Agri-Food Canada have not established formal processes to handle complaints about user charges. However, the Canadian Grain Commission does have a toll-free complaints line and an appeal process for disputes over grading. Both the Commission and the Prairie Farm Rehabilitation Administration use informal contact and regular meetings

with stakeholders to address their concerns.

**11.89** A properly designed and established appeal and dispute resolution process will demonstrate to clients that user charges are applied fairly. If clients feel that departments or agencies have not given them a fair hearing in the fee-setting process, the government's policy explicitly identifies the President of the Treasury Board as a "point of contact".

**What opportunities are there to learn from experience?**

**11.90** Managers of programs with user charges need to learn from experience and adjust fees and programs in response to changes in conditions and user needs. A business in the private sector that does not learn from experience jeopardizes its future. In the public sector, a program can continue to exist even though it does not provide services efficiently or effectively.

**11.91** Along with reviewing performance, another means of learning from experience is talking with stakeholders. Consultation on specific user charges needs to be a regular, ongoing aspect of sharing information about program performance and future objectives. The Food Production and Inspection Branch and then the Canadian Food Inspection Agency held annual meetings (until this year) with stakeholders to discuss fee and program changes. While these meetings were a step in the right direction, we believe they could have been used to better advantage. Such meetings are a forum where stakeholders can suggest ways to improve the programs. They also give the organization an opportunity to show stakeholders the value they have received for their money and to discuss the organization's future goals — and, more particularly, user fees.

**Reports on plans and on performance fail to inform adequately**

**11.92** Parliamentarians and stakeholders have shown a strong interest in user charges and they deserve timely and complete information. The three organizations we audited have communicated with users of their services about specific fees. However, planning documents such as the departmental Report on Plans and Priorities and other planning documents in the public domain contain little information on user charges and do little more than carry forward the previous year's experience. There is no apparent link between that past experience and the way the organization plans to achieve its objectives in the future. As noted elsewhere, there is no clear statement of principles and future plans for user charges. This will make it difficult for readers of the subsequent Performance Report to judge whether the actual performance has been satisfactory. If this information is considered to be too detailed for summary-level planning documents, user charge plans could be made available to the public and parliamentarians.

**Parliamentarians and stakeholders have shown a strong interest in user charges and deserve timely and complete information.**

**11.93** The Treasury Board Secretariat requests departments and agencies to submit an annual summary of planned and actual receipts from external user charges as well as a listing of their user charge initiatives. We looked at the Treasury Board Secretariat's Web site to see what information it provides on user charges in the organizations we audited. We found the information presented to be confusing and not very informative (see Exhibit 11.4).

**11.94** The report of the Independent Review Panel on the Modernization of Comptrollership, published by the Treasury Board Secretariat in 1997, highlighted the need to bring together financial and non-financial information (both historical and prospective) and to establish the links between them as a key

to fostering a better understanding of past performance — and, more important, to support planning for the future.

**11.95** We expected that the organizations would provide Parliament and stakeholders with a regular report on the financial results and performance of user charges in relation to their stated objectives. As requested by the Treasury Board Secretariat, the organizations did provide some financial information and a list of their user charges. In addition, the Canadian Grain Commission and the Canadian Food Inspection Agency provided summary financial information in their annual reports. However, none of the organizations supplied enough information for parliamentarians and stakeholders to judge whether user charges had been managed properly and the services delivered efficiently.

**11.96** Organizations need to report against the goals established in the previous year and provide information that will answer the following questions:

- How do revenues collected from user charges compare with forecast revenues?
- Have the services related to user charges been delivered efficiently?
- To what extent have user charges helped the organization meet its objectives?
- Have user charges achieved non-monetary benefits?
- Can readers locate detailed information on how specific fees and charges were established (costs, unit pricing, consultations, legal authorities, etc.)?

*(continued on page 11–32)*

**Exhibit 11.4**

**Information on User Charges Has Limited Usefulness**

On its Web site, the Treasury Board Secretariat publishes a list of external user charges in the federal government along with year-over-year comparisons of associated revenues. Based on information supplied by departments and published on a temporary basis until a new government-wide accounting system is implemented (Financial Information Strategy, planned for the year 2001), this list provides more transparency than existed previously. However, the usefulness of the information reported by Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency is limited.

Information on user charges for the 1997–98 fiscal year was not posted until 15 months after the end of the year. This meant that until June 1999 the latest information on the Web site was for the 1996–97 fiscal year. This does not provide information to users in a timely manner.

There are also problems with the data display that make it very difficult for the reader to interpret the information. For example, the list of user charges for Agriculture and Agri-Food Canada shows three separate entries for rentals, with no explanation of what is included under each. "Rental of Crown-owned Housing and Other Rentals" appears twice, along with another entry called simply "rentals". As well, fee categories are not consistent year over year, making it difficult to understand how fee levels have changed. For example, the Canadian Food Inspection Agency reports revenue from "Import, Export Fees, Ship Inspection, Quarantine, Proceeds from Sales" at $9.2 million in 1994–95 but zero in 1995–96 and 1996–97. In fact, revenue was received in the latter two years, but was entered on the list under a different category. There are also problems with the accuracy of the data. This is evident from the amounts shown for the 1997–98 fiscal year, which overstate Canadian Grain Commission user charges by approximately $6 million due to the erroneous inclusion of parliamentary appropriations.

This Treasury Board Secretariat document notes, "Additional user charge information can be found in the **Public Accounts of Canada** and in the new **Departmental Performance Reports**." However, the additional information contained in those sources is also limited and difficult to compare, as the categories used by the three agriculture organizations differ.

## Key Elements and Good Practices for Managing User Charges

### Credible Costing Capability Needed

**What we expected.** Organizations need to be able to credibly identify their full costs of delivering services. They need costing information to set amounts for fees and to identify and eliminate excessive costs and/or inefficiencies in program design and delivery. The Treasury Board Secretariat expects departments and agencies to follow appropriate costing practices.

**Why costing systems are important.** Without good costing systems, it is difficult to know whether user charges are set at inappropriate levels. Costing systems also allow an organization to compare a program's user charges with its costs and across programs, helping to ensure fairness. In addition, they allow an organization to demonstrate that users are not paying for excessive overhead costs.

Without costing information, it is difficult to identify possible efficiencies through benchmarking; to evaluate the merits of alternative service delivery options; and to identify the root causes of favourable or unfavourable performance results.

**What we found.** None of the organizations we audited had produced costing information that fully met our expectations. For the most part, they use the best information they have available but it lacks the rigour and sophistication of information produced by modern costing systems. For example, the Canadian Grain Commission recently completed a thorough costing study of its services that was a reasonable effort, given the cost information it had available. However, the costs it measured were captured at a point in time only; it does not have any ongoing costing systems. As a result, the costs it identified were not precise and may not be representative. Moreover, the Commission cannot compare the operating costs at different locations over time.

**Good practice — Net Income Stabilization Account.** The Net Income Stabilization Account (NISA) has developed the capability to perform activity-based costing, an improvement over traditional cost accounting. It identifies the cost drivers for each activity performed by an organization. This is a sophisticated management tool that, when properly designed and implemented, provides an organization with reliable and credible costing information.

Officials made a commitment to develop an activity-based costing capability for several reasons:

- to better understand their costs and, using that information, to improve efficiencies and reduce the costs of program delivery;
- to advise program participants of the impact that proposed enhancements to the program could have on NISA's cost structure. This information helped participants assess the cost/benefit trade-offs involved in building more features into the program; and
- to help NISA set fees for services it performs that are outside its core mission.

NISA has used its activity-based costing capability in all of these areas. However, it has yet to use it to its full potential in strategic planning and improving operational efficiency.

**Conclusion.** All of the organizations we audited need to significantly strengthen their costing capability. Currently only one program can produce activity-based costing information. The others still have a long developmental period ahead before they can meet reasonable expectations by users and government for costing information.

### Failing Grade on Implementing Service Standards

**What we expected.** Treasury Board policy states, "Fees should be set on the basis of clear, and preferably agreed, service standards and performance measures unless it can be demonstrated that it is not practical or reasonable." As one of the government's principles of service quality, clients can expect to receive service that "is regularly reviewed and measured against published service standards" and the results of these reviews are to be communicated to clients. Our 1996 Report Chapter 14 on service quality described the government's expectations and the progress some organizations had made in implementing service standards.

**Why service standards are important.** Properly established service standards provide an objective test of an organization's ability to meet customer service requirements. Regularly measuring and reporting actual performance against standards helps management identify problem areas and assess performance trends over time. Where services involve user charges, service standards help demonstrate to users the value they receive for the fees they pay.

**What we found.** With few exceptions, the organizations we audited were not using service standards and/or measures of client satisfaction as management tools to assess the extent to which their services were meeting customer expectations. The Canadian Grain Commission has developed service standards, while the Canadian Food Inspection Agency has drafted service standards for most program areas. However, neither regularly measures performance or reports results. Service standards are not an integral part of their management culture.

**Good practice – Net Income Stabilization Account.** The service standards of the Net Income Stabilization Account are prominently featured in its annual Producer Handbook. Performance is easily measured against four of its five standards, and they are all readily understandable to producers. Below are NISA's published service standards.

*NISA Service Standards*

- *We will process your application and send you a Deposit Withdrawal Options Notice within 60 days of receiving your properly completed application.*
- *We will finalize your withdrawal request within 30 days of receiving request.*
- *We will respond to your telephone inquiries within 24 hours and to your faxed or written inquiries within 15 days of receiving them.*
- *We will provide you with an Annual Account Statement by February 28 of each year.*
- *We will provide you with accurate and understandable information concerning your account and the NISA program.*

NISA supplements its service standards with annual client surveys and focus group sessions to try to improve service and validate whether existing standards are still appropriate. NISA administrators report actual performance against standards and the results of client surveys at least semi-annually to the NISA National Committee (an advisory group of producer clients and federal and provincial officials).

It may be that NISA's operations lend themselves to establishing service standards more easily than others we examined.

Nevertheless, NISA administrators have shown that the Treasury Board's policy objective can be achieved.

**Conclusion.** Establishing meaningful service standards and finding ways to measure them is a challenging task, but it can be done. Organizations in the Agriculture and Agri-Food portfolio need to make more determined efforts to develop and use appropriate service standards.

## Impact Assessments Provide Little Information

**What we expected.** Government policies for user charges and regulations require that before an organization imposes a new user fee, it analyze the potential impact on outside parties. We expected that impact assessments would include examining:

- how individual users were likely to be affected;
- whether the fee would be borne by the user or passed on to its suppliers or clients;
- whether impacts on different types of users would vary significantly;
- whether the fee would put users at a significant disadvantage in relation to their international competitors; and
- how demand for the service would be affected.

We also expected that assessments of cumulative impacts would be completed.

**Why impact assessments are important.** Assessments ensure that decision makers consider impacts before imposing user charges, and help alert stakeholders to potentially significant changes.

**What we found.** The impact assessments included in public notices of new regulations were usually imprecise and lacked quantification. Typical was the Canadian Food Inspection Agency's impact assessment of new Plant Protection fees, which noted simply, "When the fees are prorated to the amount of material imported or exported, the increase in the cost per item is expected to be small, hence the price of consumer goods should not significantly increase." In the case of one new fee proposed by Agriculture and Agri-Food Canada, the impact assessment did note that an expected $4 million in new revenue would result, but did not indicate how much more a typical borrower would be paying. Some assessments provided some information on fees in other jurisdictions, but others did not.

**Good practice – Agriculture and Agri-Food Canada.** A recent study by Agriculture and Agri-Food Canada shed light on the cumulative impact that various federal fees have had on the agriculture and agri-food sector. While the study did have some drawbacks in its design, one of the study's most significant achievements was the development of analytical tools that could be adapted to conduct an impact assessment of any proposed fee. The assessment would be used to estimate the impact of the proposed fee on user profitability and to show how the proposed fee would be passed on to consumers, agricultural producers or other groups.

**Conclusion.** Impact assessments for individual fee proposals provided only minimal information with which to understand the expected impact. This is particularly significant because one of the main criticisms levelled by industry is that fees have a major effect on profitability, and disadvantage them in relation to competitors in other jurisdictions.

## Some Success in Cost Reduction and/or Cost Avoidance

**What we expected.** Before cost recovery initiatives are introduced, we expected that organizations would, as the Treasury Board Secretariat requires, determine whether there are better and cheaper ways to deliver the service without compromising program objectives.

**Why considering cost avoidance and/or cost reduction is important.** Organizations need to ensure that they have considered alternatives to new or increased user charges in order to alleviate stakeholders' concerns that they have placed more emphasis on revenue generation than on redesigning services or reducing costs.

In order to evaluate alternatives, organizations must examine services they provide to determine if they are:

- required in order for the organization to fulfil its mandate;
- meeting users' needs;
- being provided in the most efficient manner;
- encouraging appropriate use of federal resources by users;
- being charged to the appropriate individual/group of individuals; and
- recovering an appropriate proportion of direct, indirect and overhead costs.

**What we found.** The Canadian Grain Commission has re-examined all of the services it offers to identify opportunities for cost reduction, cost avoidance and/or improved efficiency, as well as re-examining existing user charges. The other organizations in the portfolio have conducted less extensive examinations of their services in an attempt to address these questions. Some success stories have emerged as a result of these efforts.

**Good practice – Canadian Grain Commission.** In 1998, the Commission, working with its stakeholders, achieved a significant improvement in operations. In response to concerns about the costs of one of its services (inward weighing), the Commission took advantage of improvements in technology and stakeholder input to completely revamp the service it had previously provided. A new Grain Receival Service was developed that took into account both the Commission's statutory responsibilities and its clients' need for reduced costs. The changes resulted in a dramatic reduction in unit costs, from $14.75 per rail car to $5.90, representing a 60 percent reduction.

**Good practice – Canadian Food Inspection Agency.** The Canadian Food Inspection Agency has reviewed a number of its programs. One success story relates to livestock grading: as an alternative to increased user charges, industry decided to operate its own, less costly, grading service.

**Conclusion.** The cost of delivering programs that meet client needs may often be reduced when organizations and stakeholders work constructively together. The alternative to reducing/avoiding costs — new or increased user charges — can spur parties to achieve benefits that would not otherwise have been realized.

## More Attention Needed to Determining Private Benefit and Public Good

**What we expected.** It is government policy to implement user charges for services that provide identifiable recipients with direct benefits beyond those received by the general public. Departments are expected to work with stakeholders to identify these private beneficiaries. They must also determine what proportion of the benefit flows to the private beneficiaries and what proportion flows to the general public.

**Why distinguishing private benefit from public good is important.** Determining the appropriate allocation between private benefit and public good is essential to a perception of fairness in the fee-setting process. Since many government services provide both private and public benefits, the organizations need to state clearly to stakeholders the basis on which they have set fees.

Stakeholders have long been concerned about the lack of clearly stated principles and/or guidance to help ensure an appropriate and consistent approach to allocating private and public benefit. The guidance provided by the Treasury Board Secretariat has been limited to a list of issues to consider. Even with detailed guidance, however, the determination of public good and private benefit will remain a highly judgmental and difficult area for departments to manage well.

**What we found.** None of the organizations we examined have clearly communicated to stakeholders a set of principles to explain how allocations between private benefit and public good are made.

In response to our 1996 audit of Animal and Plant Health, the Canadian Food Inspection Agency made a commitment to "develop a set of criteria that will guide the estimation of the level of private good associated with each functional area of service". This work has yet to be completed. The Agency has concluded that there are private benefits from each of the services it provides, and has established a minimum private benefit level of 10 percent. However, the Agency has not attempted to develop more specific guidelines.

Agriculture and Agri-Food Canada has not developed any principles to explain how private versus public benefits are identified and valued. Such principles would be useful, since there are examples of services offered by the Department that convey at least some private benefits, but where user charges vary from nil (Cash Advances program) to partial recovery (Net Income Stabilization Account) to full cost recovery (*Farm Improvement and Marketing Cooperatives Loans Act* program).

Most of the Canadian Grain Commission's work achieves full cost recovery. However, the costs of operating its Grain Research Laboratory ($10 million annually) are shared equally between users and the government. The basis for this 50/50 allocation of public/private good, which dates back many years, is not readily apparent.

**Conclusion.** Stakeholders have consistently asked organizations to develop clear and understandable guidelines as to how private benefit will be distinguished from public good. While this is a difficult task, it is one that needs to be undertaken.

## The Consultation Process Has Improved

**What we expected.** "Effective and meaningful consultation" is the standard against which stakeholder consultations are measured. We expected that to make consultations on user charges effective and meaningful, organizations would:

- make reasonable efforts to notify all stakeholders of new or amended charges before they are introduced;
- give affected parties a reasonable opportunity to provide input into the design, delivery and pricing of services;
- tell stakeholders why services are delivered as they are, how charges are determined, and how costs are controlled; and
- provide stakeholders with feedback on what was done about concerns they expressed and suggestions they made during the consultation process.

**Why an effective consultation process is important.** Consultation is a tool that promotes openness and transparency, builds general acceptance for proposed changes in program delivery and helps to ensure that good decisions are made. "User pay, user say" has become an important consideration in implementing user charges, and the consultation process should provide users with the opportunity to have their say.

Consultation in a regulatory environment entails particular challenges. Many regulated services provide benefits that extend beyond those who pay directly for the services; often, these regulated services also exist to protect the general public. The stakeholder community thus includes more than just the "user". A typical example is food inspection, where the user may be a processor of foods. The general public also benefits from food inspection even though it does not pay user charges directly. In such cases, it is important that consultations reflect the notion of "user pay, user and beneficiaries say".

**What we found.** Stakeholders we contacted generally reported that consultations have improved. The organizations are developing stronger relationships with stakeholders and have a better understanding of the kinds of information stakeholders want. With this improved consultation, users have a better sense that their concerns are respected in program design.

**Good practice – Canadian Food Inspection Agency.** The Canadian Food Inspection Agency developed a set of principles that has resulted in a uniform approach to consultation across its many different program lines. The principles also clearly laid out a fundamental tenet of the Agency — that food safety would not be compromised. This fostered a more open process and also provided stakeholders with a framework to plan and prepare for consultations.

**Good practice – Canadian Grain Commission.** The Canadian Grain Commission has been charging user fees since 1912. Over the years, it has established a productive working relationship with its stakeholders. It made determined efforts to ensure that all players in the grain industry were appropriately represented in the consultations during the recent comprehensive review of its programs. As well, the Commission has been careful to balance representation among stakeholder groups, who at times may have different or even competing priorities.

**Conclusion.** Over the last several years, consultations have improved. Organizations could make further improvements by making certain that, to the greatest extent practical, stakeholders representing all parties, including users and beneficiaries, are included in the consultative process.

## Success in Keeping Collection Costs Low

**What we expected.** We expected organizations to develop efficient mechanisms for collecting user charges in order to minimize both administrative costs and losses to the Crown from uncollectable amounts.

**Importance of efficient collection mechanisms.** Since fee collection as such contributes little to the achievement of program objectives, its costs need to be minimized.

**What we found.** We found several examples of well-designed fee collection processes and none that indicated any need for major improvement.

**Good practice – *Farm Improvement and Marketing Cooperatives Loans Act*.** The *Farm Improvement and Marketing Cooperatives Loans Act* (FIMCLA) program has been designed so that the bulk of program administration and loan approval is handled by commercial lending institutions. If those institutions do not follow proper procedures, the loan guarantee by the government may be invalidated — a risk to the lenders that helps to ensure that they approve only qualified borrowers under the FIMCLA program.

In order to be eligible for a FIMCLA guarantee, a borrower must pay the government an up-front, one-time registration fee of 0.85 percent of the principal value of the loan. The lending institution collects this fee and remits it to FIMCLA officials. Until they receive the fee, the loan is not registered and the guarantee does not apply. Consequently, fee collection is timely and the government has no collectability problems to deal with.

The government's costs of administering the program are thus limited to those of interpreting regulations, processing applications and managing any defaulted loans. Approximately $500 million a year in FIMCLA-guaranteed loans and a considerably higher amount in previously issued loans are managed for approximately $1 million in annual administration costs. Only a minuscule portion of these administration costs is dedicated to the collection of registration (guarantee) fees.

**Good practice – Canadian Food Inspection Agency.** The Canadian Food Inspection Agency recently centralized its collection activities in one location. Previously, collections were managed in regional offices throughout the country, with varying levels of efficiency and expertise. Now clients across the country have a single point of contact for information about billings and/or the status of their accounts. With staff in one centre who are trained and dedicated to this activity, the Agency expects that service will improve and administrative costs will be reduced.

**Conclusion.** The organizations that we audited had developed effective processes and procedures to keep the costs of collecting user charges low.

## Means of Demonstrating Efficiency Are Limited

**What we expected.** Government policy requires that organizations explain how costs are being controlled in services subject to user fees. Hence, we expected that the organizations would communicate to users persuasive evidence that they are controlling costs and operating efficiently.

**Why demonstrating efficiency is important.** Users should feel confident that they are not bearing the costs of an inefficient service, especially where services are mandatory.

**What we found.** We found that with few exceptions, organizations did not use systematic approaches to demonstrating efficiency, for example:

- benchmarking efficiency against other comparable organizations or industry norms;
- showing how costs and efficiency (e.g. unit costs) have changed over time;
- comparing efficiency of similar activities within the organization; and
- reporting the results of in-depth efficiency or resource reviews that identify whether there is a potential for significant efficiency gains.

Not all of these approaches are applicable to every situation (for example, tracking efficiency over time generally requires program costing systems such as activity-based costing; benchmarking against other organizations can be done only if there are similar organizations that will release cost and efficiency information, etc.). As well, the extent to which an organization pursues more systematic measurement of efficiency can depend on the extent to which users and managers have other means to judge efficiency. For example, if users are mostly satisfied from firsthand observation that an operation is efficient, then more systematic efficiency measurement may not be warranted.

**Good practice – Prairie Farm Rehabilitation Administration.** The Prairie Farm Rehabilitation Administration of Agriculture and Agri-Food Canada charges fees for irrigation services that it provides in southwest Saskatchewan. In 1996, it proposed fee increases for the first time since 1989. To justify this, it described how it had tried to avoid fee increases in recent years by reducing the vehicle fleet, contracting out services and downsizing staff. It quantified the total impact of these changes, showing that expenditures had dropped from an annual average of $1 million to $770,000 by 1995–96.

**Good practice – Canadian Food Inspection Agency.** The Canadian Food Inspection Agency (CFIA) has undertaken several studies of service efficiency in its meat hygiene program — its largest program. These studies included an ergonomics study, a Regional Overtime System and Industry Efficiency Review, and a study titled Service Evaluation and Future Needs Assessment: The Red Meat Industry.

**Conclusion.** Programs should pay greater attention to systematically demonstrating to users their efforts at cost control and operational efficiency.

## Existing Appeal Mechanisms Are Weak

**What we expected.** We expected to find that a formal process for reviewing client complaints had been established that was objective, independent and unbiased. Treasury Board policy requires that such a dispute resolution process be established.

**Why effective appeal mechanisms are important.** The opportunity to appeal is often the only recourse for a stakeholder to register complaints or express dissatisfaction about fees for services. Having a means of appeal is particularly important in the case of user charges for regulated and/or mandatory services where government is the sole service provider. An appeal mechanism:

- keeps government accountable for its actions;
- helps to ensure that departments and organizations take into account concerns of stakeholders; and
- helps to ensure that departments and organizations cost services accurately and look for efficiencies in service delivery.

An appeal mechanism should deal with issues such as:

- the level of service provided for the user charge;
- the user fee process, including consultation, accountability and decision making;
- the general structure of user charges; and
- how the regulation is being interpreted for specific user charges.

An appeal mechanism exists to deal with how the policy of user fees is implemented rather than with the government's actual user charge policy. A balance may need to be found between legitimate complaints of a structural, procedural nature and those more specifically related to dissatisfaction with the user charge policy itself.

**What we found.** Neither Agriculture and Agri-Food Canada nor the Canadian Grain Commission has developed a formal appeal process for resolving user fee/service disputes.

The Commission does have several informal avenues for stakeholders to bring complaints/concerns to its attention, including:

- the Assistant Commissioners, who act as ombudsmen and provide a link between the Commission, grain companies and producers; and
- a toll-free complaints line.

The Canadian Food Inspection Agency has established a process to respond to client appeals related to service fees and programs. Clients may make formal, verbal and written appeals to the Agency. While the Agency has communicated the availability of an appeals mechanism to its stakeholders, in some cases we found that the stakeholders were not aware of its existence.

**Conclusion.** Appeal mechanisms and avenues for dispute resolution for user charges need to be formalized and better communicated to stakeholders and clients.

*(continued from page 11–26)*

## Moratorium on New Fees

**11.97** In a November 1996 presentation to the House of Commons Standing Committee on Agriculture and Agri-Food, the government made a commitment to introduce no new user fees or increases to existing fees before the year 2000 (beyond those already announced). The intent was to reassure Parliament that the proposed Canadian Food Inspection Agency would achieve efficiencies through cost reduction and cost avoidance rather than imposing additional fees.

**11.98** Since the announcement of this fee moratorium, there have been calls to increase its scope and duration. Incomes in the agriculture sector have been under severe pressure in the form of low commodity prices, and the federal and provincial governments have developed income disaster assistance programs. There have also been calls for a moratorium on user charges across the government.

**11.99** During the course of our examination, officials from the organizations expressed different views about what organizations the moratorium applied to and how long it would last.

**The moratorium has had the unintended effect of freezing activity in the management of user charges.**

### Impacts of the moratorium

**11.100** The moratorium has had not only the intended effect of freezing fee increases but also the unintended effect of freezing activity in the management of user charges. The pace of implementing the government's policy on user charges has slowed, and officials point to the moratorium as the primary reason. For example, consultation by the Canadian Food Inspection Agency has declined; and there is less emphasis on improving management tools such as costing at Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency.

**11.101** Since Program Review in 1995, Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency have gained experience with user fees and increased their knowledge. They have made an investment in developing better consultations and communicating with clients. There is a risk that this capability will be set back as the moratorium continues.

**11.102** In the meantime, programs continue to be adjusted to meet the changing needs of their users. Examples can be seen on a major scale in the program redesign at the Canadian Grain Commission and the continued introduction of the Food Safety Enhancement Program (which applies Hazard Analysis and Critical Control Point principles) in the meat hygiene program of the Canadian Food Inspection Agency.

**11.103** During the moratorium, however, fees cannot reflect these program changes. This creates the possibility that some clients may pay more than their fair share. The divergence of program costs from fee revenues can also increase financial risk to the organizations, and the risk is

especially high for those that rely heavily on fee revenues.

**11.104** The moratorium has also raised uncertainty among clients and stakeholders about the status of previously announced plans. There were no clear public statements to dispel the uncertainty and allow stakeholders to plan accordingly. One stakeholder told us, "Nobody knows what the future holds for user fees — the industry needs time to plan."

**What action is possible?**

**11.105** The period of the moratorium is an opportunity for organizations to evaluate whether user fees are being applied properly; to develop measures of program efficiency; to develop better management tools for user charges, including costing systems; and to plan for the future.

**11.106** Program managers could also collect information on the performance of user charges and the impacts of the moratorium; and officials could develop options for future policy on user charges. If the government does not intend to continue its implementation of new fees or to increase existing fees, one option is to permit fee adjustments in order to eliminate inconsistencies and allow fees to reflect changes in services.

## Conclusion and Recommendations

**11.107** During the last five years, the application of user charges has increased significantly in some of the organizations we audited. In many cases, officials viewed time restrictions and an immediate need for revenue as leaving little opportunity to design user charges in a way that would also provide non-monetary benefits. There was also little time to look for opportunities to avoid or reduce costs. The organizations were met with strong opposition from the groups that were obliged to pay the increased fees.

**11.108** Each of the three organizations has made progress in designing and managing user fees to achieve the government's objectives for user charges. The structure used for consultations has improved significantly over the past five years, and in some areas good practices have been developed. But there are still opportunities to improve their management of user charges in a number of areas, including costing of services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into strategic planning.

**Each organization has opportunities to improve the management of user charges in a number of areas.**

**11.109** An opportunity exists to strengthen the accountability relationship between those who provide the service and those who use and pay for the service. The organizations can improve services and adjust fees based on what they learn in applying user charges. This can be accomplished by linking better costing practices, efficiency of program delivery, and improved reporting to users on results. The three organizations have not monitored and reported their user fees in a clear and meaningful manner.

**11.110** Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share. There is also a risk that the capability to manage user fees that has been developed over the past few years will be set back.

**11.111** Many officials see the moratorium as a sign of a broader government reluctance to continue with the implementation of user charges. As a temporary measure, the moratorium can give the three organizations time to reassess their current position, develop guiding principles, and plan improvements for the future of user charges in their organizations.

| | Recommendations | Agriculture and Agri-Food Canada | Canadian Food Inspection Agency | Canadian Grain Commission |
|---|---|---|---|---|
| 1. | The organizations should take steps to improve their costing capability in order to improve their management of user charges and to enhance public confidence in the administration of user charges. (11.29 to 11.30) | ● | ● | ● |
| 2. | The organizations should introduce meaningful service standards (including measures of client satisfaction) that are monitored and reported on a regular basis. (11.31 to 11.32) | ◐ | ● | ● |
| 3. | The organizations should improve public information on the likely impacts of proposed fees, including administrative and other costs and monetary and non-monetary benefits. (11.33 to 11.36) | ● | ● | ● |
| 4. | Agriculture and Agri-Food Canada should adapt the analytical approach used in its cumulative impact study into tools for estimating the impacts of individual proposed fees. (11.37, Exhibit 11.3) | ● | N/A | N/A |
| 5. | The organizations should decide what further study of cumulative user charge impacts is warranted and plan accordingly. (Exhibit 11.3) | ● | ● | ● |
| 6. | Agriculture and Agri-Food Canada should further document the cumulative impact study approach and lessons learned, and share it with other interested parties. (Exhibit 11.3) | ● | N/A | N/A |
| 7. | The consultative process for new or amended user charges should be broadened to include all significant beneficiaries of the related services, regardless of whether or not they are the ones invoiced for the services. (11.41 to 11.48) | ◐ | ● | ◐ |
| 8. | The organizations should, with the help of central agencies, identify ways to increase the responsiveness of fee structures to changes in the business environment and in costs, along with commensurate improvements in tools for public and parliamentary scrutiny. (11.53 to 11.59) | ● | ● | ● |
| 9. | Guiding principles in line with government policy should be developed that allow a person to identify situations in which user charges will be applied; to understand how private and public benefits have been differentiated; to understand how the amount of the charge has been determined; and to see that the principles have been applied consistently and equitably across the organization. (11.60 to 11.73) | ● | ◐ | ◐ |

| | | | | |
|---|---|---|---|---|
| 10. | Each organization should ensure that significant user charge issues are properly considered in its ongoing strategic planning process, and reflected in its strategic plan. (11.60 to 11.63) | ● | ● | N/A |
| 11. | Although the timing may vary depending on the nature and significance of the area, the organizations should review each of their programs, with and without user charges, to identify fee inconsistencies, opportunities to achieve benefits beyond revenue generation, opportunities to simplify the fee structure, and fees at odds with program objectives or the organization's user charge strategy and principles. This should identify what changes are needed in user charges, and how these changes will be achieved. (11.81 to 11.85) | ● | ● | ● |
| 12. | Better means should be developed to demonstrate systematically to users that costs are controlled and operations are efficient. (11.81 to 11.82) | ● | ● | ● |
| 13. | The organizations should regularly review (with stakeholders) and assess their management of ongoing user charge initiatives to ensure that the services being provided continue to meet the needs of beneficiaries and that they are delivered economically and efficiently. (11.83 to 11.84) | ● | ● | ◐ |
| 14. | The organizations should evaluate the extent to which user charges have achieved revenue and other benefits, and should identify and publicize user charges that achieve positive, measurable outcomes for taxpayers. (11.85) | ● | ● | ● |
| 15. | Appeal and dispute resolution mechanisms should be formalized and widely communicated. (11.86 to 11.89) | ● | ● | ● |
| 16. | Where user charges are material, the organizations should make significant improvements to the quality of user charge information that is made public, so that parliamentarians and the public understand the organization's user charge strategy, principles, plans and performance. (11.92 to 11.96) | ● | ● | ◐ |
| 17. | The scope and duration of the present fee moratorium should be clarified. (11.97 to 11.104) | ● | ● | ● |

● Applies
◐ Applies to a lesser degree (some action already taken, or applies only to certain areas/programs)
N/A Not applicable

***Agriculture and Agri-Food Canada's response:*** *The Department appreciates the Auditor General's recognition of its notable successes and innovations over the years in administering what is a complex and often sensitive file. We are always interested in making improvements and appreciate the valuable contribution of the Auditor General towards this goal.*

*Agriculture and Agri-Food Canada is developing a management framework compatible with portfolio requirements that will enable it to better articulate the first principles that will guide the future application of user fees when the current moratorium is lifted. These first principles will respect the spirit of the Treasury Board policy and the needs of our clients. The Department recognizes the value of improving costing mechanisms, assessing the impact of individual fees and establishing appeal processes in the management of user charges. We seek ways to improve performance in these areas when undertaking reviews of programs and changes to fees. At the same time, the Department is looking for ways to improve the requirements and management of the regulatory process and will seek guidance from the Treasury Board Secretariat in this area.*

*Balancing good management theory and client acceptance of user fees has always been a challenge. We are proud of our efforts to strike that delicate balance in close co-operation with and constant feedback from our clients, and in the context of other factors which impact our working environment. Foremost among these other factors are instructions from Parliament and the need to balance impacts on the sector.*

***Canadian Grain Commission's response:*** *The Canadian Grain Commission (CGC) appreciates the recognition of its successes by the Office of the Auditor General. We find that the chapter provides useful suggestions for improvement, and we intend to act on them. This notwithstanding, the following should be noted:*

- *The CGC conducts an annual review of all user fees. In recent years, the CGC has performed a comprehensive review of the costs associated with each service.*
- *The CGC has recently reviewed its current position on user fees, restated its guiding principles and proposed improvements that are in keeping with the 1997 Cost Recovery and Charging Policy of the federal government.*
- *Since 1991, the CGC has taken vigorous action, including streamlining, reorganizing and downsizing, to reduce costs and minimize the impacts of fees on the users of its services.*

*Within the parameters established by Parliament, the Commission is committed to working with its grain producer and industry clients to implement the government's cost recovery policy and to provide excellent service for the fees it collects.*

***Canadian Food Inspection Agency's response:*** *The Canadian Food Inspection Agency (CFIA) has long contributed to the development and implementation of the government's cost-recovery policies and practices. Experience has shown that user charges have many benefits beyond that of revenue generation. The CFIA agrees with the observations and recommendations contained in the audit by the Office of the Auditor General. These will assist the CFIA to continue to maintain a fair and equitable system of user charges for those inspection services that provide an important economic benefit to the Canadian agri-food and fish industries.*

*The CFIA is exploring options for cost-recovery practices in the year 2000. Should the present cost-recovery moratorium be lifted, the CFIA will follow the Auditor General's recommendations to address the gaps in the current cost-recovery policy. Increased revenue*

*generation may well be secondary to more important objectives such as the equitable and uniform application of service fees across all commodity programs. Should the moratorium continue, the CFIA will focus its activities on possibly simplifying fees, reporting on performance, and making minor fee modifications to address changes to CFIA cost structures, such as those resulting from restored collective bargaining.*

*Client consultations will continue to be one of the CFIA's most important cost-recovery activities, as they provide insight into the economic climate and reinforce the need to balance policy objectives with broader government-wide objectives. An effective, well-designed cost-recovery program is one that generates revenues in support of program objectives, thereby contributing to the overall well-being of the Canadian agri-food and fish industries.*



# About the Audit

## Objectives

The objectives of the audit were to determine whether the three organizations we audited:

- have properly designed and managed user charges so as to achieve the government's objectives for user charges;
- are learning from experience through the regular review of information and experience gained from applying user charges; and
- monitor and report performance in a way that is clear and meaningful and allows Parliament to judge how well user charges have been implemented and managed.

## Scope and Approach

The audit examined external user charge initiatives in the Agriculture and Agri-Food portfolio, excluding Crown corporations and the Canadian Pari-Mutuel Agency Revolving Fund. Our examination included Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission. Within Agriculture and Agri-Food Canada, we concentrated our work on the Market and Industry Services Branch (*Farm Improvement Marketing Cooperatives Loans Act*), the Policy Branch (Net Income Stabilization Account), the Prairie Farm Rehabilitation Administration, and the Research Branch.

The Office of the Auditor General has examined user charges as part of past audits in the agriculture portfolio. In Chapter 9 of our 1996 Report, Animal and Plant Health, we noted that amounts being recovered were significantly less than the full costs of delivering the service. There was also a lack of criteria for determining private versus public benefit. In Chapter 13 of our 1994 Report, Federal Management of the Food Safety System, we noted that costs of food inspection were not being recovered in accordance with the government's policy that was then in place, and that there were inconsistencies in cost recovery practices among and within departments involved.

Using the government's policy, the Organization for Economic Co-operation and Development and other sources of information as a guide, the audit examined how well the various organizations have implemented and managed user charges.

In addition to interviews with staff of the three organizations, we examined and analyzed organizational files, data and documentation. We conducted interviews with a number of industry groups as well as individual producers who are affected by user charges. We also observed services for which fees are charged by inspection staff at various locations, including meat slaughter and processing plants, import and export certification, and grain elevators in Vancouver and Thunder Bay.

The quantitative information in this chapter that was drawn from government and non-government sources or departmental databases has been checked for reasonableness but has not been audited.

## Criteria

For our first audit objective, we expected that:

- the three organizations would have a comprehensive user charge strategy with clear objectives, and that this would be applied consistently in all areas where user charges may apply across the portfolio;
- appropriate consideration would be given to options for reducing and/or avoiding costs, and that the organizations would be able to demonstrate that activities are delivered efficiently;*
- user charges would be implemented in a timely manner, following due process, in accordance with all relevant legislative authorities;
- user charges would be implemented "for services that provide identifiable recipients with direct benefits unless overriding policy objectives would be compromised";*
- a reasonable analysis of cost drivers and the full cost of providing the service would be performed;*
- the level of the fee would be established taking into account not only the full cost of providing the service but also other factors, such as optimal pricing from an economic standpoint, the proportion of private benefit received by the user and the achievement of program objectives;
- clear and preferably agreed-upon service standards would be established where user charges are applied;*
- meaningful and effective consultations would be held with stakeholders when fees were established or revised;*
- the formulation of user charges would include information gained from impact assessments that have taken into account the cumulative impact of user charges and the impact of fees on competitiveness;
- the formulation of user charges would include an assessment of the merits of alternative fee structures (for example, flat fees versus fees based on the extent of use); and
- fees would be collected in a timely and diligent manner and that records pertaining to outstanding amounts would be properly maintained.

For our second audit objective, we expected that:

- a process would be in place for the periodic review of user charges, determining whether fees need to be adjusted where cost structures have changed, where the mix of public and private benefits have changed, or where service levels have been modified. This would include an analysis of results achieved against expectations;
- the information gained from the periodic review and from consultations would be considered for potential changes to the services provided, and would be incorporated in the strategy and objectives of the three organizations; and
- program changes would be made in response to the exhibited need for services and feedback from users, so that only those services that are needed are provided, and are provided in a manner that best meets the needs of the users.

** Criteria drawn from Treasury Board policy and other Treasury Board documents*

For our third audit objective, we expected that there would be:

- a long-term plan for user charges clearly communicating to Parliament and other stakeholders the future direction of user charges and how these link with achieving the objectives of the three organizations; and
- fair and reliable reporting of financial and performance results achieved by user charges relative to their stated objectives provided to Parliament and stakeholders on a regular basis.*

** Criteria drawn from Treasury Board policy and other Treasury Board documents*

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# Chapter 12

## Agriculture and Agri-Food Canada

### A New Crop: Intellectual Property in Research

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 12–5 |
| **Introduction** | 12–7 |
| Role of the Research Branch in Agriculture and Agri-Food Canada | 12–7 |
| Federal policy on intellectual property | 12–8 |
| Legal context of intellectual property in agriculture | 12–8 |
| The market for Research Branch technologies | 12–10 |
| Focus of the audit | 12–10 |
| **Observations** | 12–10 |
| **Challenges Facing the Research Branch** | 12–10 |
| Limits on the Branch's freedom to fulfil its mandate | 12–11 |
| Keeping up with its environment | 12–11 |
| Uncertainty within the Research Branch | 12–12 |
| Obtaining the views of all Canadians | 12–12 |
| Difficult resource decisions to be made | 12–13 |
| Understanding the market for intellectual property | 12–13 |
| Lack of information for managing | 12–14 |
| **The Way Forward** | 12–14 |
| Framework to help guide decisions | 12–14 |
| Communication with Branch employees to foster an entrepreneurial culture | 12–15 |
| Enhanced management information and development of performance measures | 12–15 |
| Strengthened consultative tools | 12–16 |
| **Conclusion and Recommendation** | 12–17 |
| **About the Audit** | 12–18 |
| **Insert** | |
| Management of Intellectual Property in the Federal Government | 12–9 |
| **Exhibits** | |
| 12.1 The Shepody Potato: A Research Branch Innovation | 12–7 |
| 12.2 Management Uncertainty Results in Different Approaches to Licensing Plant Varieties | 12–12 |
| 12.3 Dealing With Objectives for Intellectual Property: The Stanford University Experience | 12–15 |
| 12.4 Elements of an Effective Decision Framework | 12–16 |

# Agriculture and Agri-Food Canada

## A New Crop: Intellectual Property in Research

## Main Points

**12.1** The context of intellectual property related to food production in Canada has changed dramatically in the last 10 to 15 years. This is forcing Agriculture and Agri-Food Canada's Research Branch to seriously rethink its way of managing its own intellectual property. It faces the following issues:

- What should the Research Branch do when it makes a discovery that leads to an invention? Should it publish it, or legally protect it and then license it to others? If it does license it, should it license it to one organization or many?
- How should the Research Branch deal with intellectual property of others that it uses in its own research? For example, if it develops a new potato by taking advantage of private sector patents, will this hinder its ability to get the new product into the hands of producers? Should the Branch buy access to private sector patents? Should it barter with its own patents?

We believe that it is important for the Branch to answer these questions — how best to release its intellectual property and how best to acquire the intellectual property of others — because they have implications for the future success of agriculture. As Canada's agriculture sector becomes more and more sophisticated, it depends increasingly on exchange of and access to new knowledge coming from the Research Branch and other organizations. Answers to these questions also have implications for future government revenues from intellectual property.

**12.2** Particularly urgent is the risk to the Branch's continued ability to provide the agriculture sector with innovations. The risk stems from its significant use in research projects of intellectual property owned by others. Should it encounter significant obstacles to procuring the rights to use these proprietary technologies, the Branch may have to alter, postpone or abandon current research initiatives.

**12.3** The Research Branch is endeavouring to cope with these challenges, but this has become difficult due to substantial changes in the Branch and in the agri-food sector. In our opinion, the Branch needs to hasten and expand its efforts. A decision framework is needed to guide employees in deciding which research products should be legally protected, how to best acquire new intellectual property and how to best release its own protected intellectual property. Other tasks facing the Branch are to improve communication with staff; improve information on the Branch's intellectual property; and improve the integration of stakeholders' views into decision making. An overall approach to managing intellectual property is needed.

### Background and other observations

**12.4** Intellectual property is information that is useful and transferable and controlled by someone. It includes inventions, some of which are controlled through patents and others that are controlled by secrecy. It also includes plant varieties and plant materials. Until recently, there were few ways to protect intellectual property stemming from agricultural research, and new crops offered little monetary return to the breeder. New crop types can now be protected under the 1990 *Plant Breeders' Rights Act,* and some new biotechnology processes can be protected by patent.

**12.5** The Research Branch is the part of the federal agriculture department that does scientific research. It has a budget of about $250 million annually and is a key player in agricultural research in Canada. It is a major contributor to "Innovating for a Sustainable Future", one of the Department's business lines. It first made its mark more that 100 years ago with the release of Marquis wheat, which greatly helped develop Prairie agriculture. Current revenue from the Branch's intellectual property licenses is around $3.4 million a year, a minor but growing part of its $250 million budget.

**12.6** The challenges the Branch faces in managing intellectual property include the accelerated pace of change, especially in the field of biotechnology; uncertainty in the Branch brought on by downsizing and a greater focus on research partnerships; the need to consult broadly on intellectual property policy; the high cost of protecting and enforcing its intellectual property rights; the need to understand the market for its intellectual property; and the need for good management information.

**The Department has accepted our recommendation and has committed its Research Branch to work to develop and communicate a general framework for managing the Branch's intellectual property.**

## Introduction

**12.7** A few years ago it was unlikely that a Canadian would become rich by coming up with a new plant. There were few ways to protect ideas, and new crops offered little monetary return to the breeder. During the past decade, though, the possibilities of making money through agricultural research have improved. New crop types can now be protected under the 1990 *Plant Breeders' Rights Act* and new biotechnological processes can be protected by patent. How should the research arm of the federal agriculture department deal with these developments and their implications?

### Role of the Research Branch in Agriculture and Agri-Food Canada

**12.8** The Research Branch is the part of Agriculture and Agri-Food Canada that does scientific research. It is a major contributor to "Innovating for a Sustainable Future", one of the Department's business lines. It first gained recognition more than 100 years ago with the release of Marquis wheat, a pivotal crop in the settlement of the Prairies. Research Branch innovations continue to play a significant role in Canadian agriculture (see Exhibit 12.1). In developing higher-yielding, hardier, and more disease-resistant crops, the Branch is recognized as an important factor in the continuing success of Canadian farming. Departmental economic studies have estimated that the Branch's research has brought economic benefits to the agri-food sector well in excess of its expenditures on research. In 1998–99, the Research Branch released roughly 60 new plant types and was granted 10 new patents.

**12.9** The Branch has reported that while it will collaborate with private research firms, it does not want to compete head-to-head. It has geared its efforts primarily toward science and technology that have value to the country that the private sector, working alone, cannot provide at a profit. For example, it develops plant varieties to fill specific niche markets and to deal with special challenges faced by Canadian producers.

**12.10** The Research Branch is both a user and a producer of intellectual property. It obtains intellectual property from other research organizations around the world and, as a provider, it licenses out its own inventions and plant varieties. Acquiring and licensing intellectual property is one way for the Branch to use the products of other research groups in its own activities and then transfer the benefits to Canada's agri-food sector.

**12.11** Depending on the Branch management's goals, and on market demand, the eventual revenues from licensing its intellectual property may or may not become significant. Its intellectual property royalties currently earn revenue of roughly $3.4 million a year, a minor but growing part of the Branch's $250 million budget.

**12.12** More urgent than revenue considerations, however, is the need for the Branch to maintain its freedom to

**The Research Branch is recognized as an important factor in the continuing success of Canadian farming.**

Exhibit 12.1

**The Shepody Potato: A Research Branch Innovation**



Shepody potatoes are good for making french fries. Thanks to its high yield and relatively early maturing, the Shepody potato has captured a large part of North American french fry production and has helped to keep Canadian growers competitive. Agriculture and Agri-Food Canada estimates that about 1.5 billion pounds of Shepody potatoes were grown in North America last year. The Shepody potato originated at the Department's Potato Research Centre in Fredericton, New Brunswick in 1969 and was licensed for production in 1980. In recent years the Shepody potato has been the subject of biotechnological research, and several genetically modified varieties have now been developed.

We were told that if the Shepody potato had been released with the current *Plant Breeders' Rights Act* in place, it would now be returning $5 million to $10 million a year to the Research Branch.

Access to new ideas that can be turned into readily available crops for producers is becoming more complex and expensive for the Branch.

operate on the acquisition and research side of its activities. The future success of Canadian farming depends on access to new knowledge. As agri-food companies seek to protect new advances, gaining access to new ideas that can be turned into readily available crops for producers is becoming more complex and expensive for the Branch.

**Federal policy on intellectual property**

**12.13** The federal government's policy on managing and recovering intellectual property fees is contained in the Treasury Board policy on user charges. That policy directs that user charges should "earn a fair return for the Canadian public for access to, or exploitation of, publicly owned or controlled resources" and that prices should be "based on market value for the sale, lease or license".

**12.14** The ownership of intellectual property generated as a result of public expenditure is governed by the following legislative and policy frameworks:

- *Public Servants Inventions Act* and Regulations; and
- Policy on Ownership of Intellectual Property in Government Contracts.

Ownership of intellectual property arising out of collaborative work and as a result of grants and contributions is governed by the terms and conditions of the related program or through individual agreements. Intellectual property generated by the federal government is also subject to all laws and regulations governing intellectual property in general, for example, the *Patent Act*, the *Copyright Act*, and the *Plant Breeders' Rights Act*.

**12.15** In its 1996 federal strategy for science and technology, the government made a commitment to immediately review its policy on intellectual property and resolve a number of outstanding issues. "Management of Intellectual Property in the Federal Government", on page 12–9 of this chapter, provides a brief review of the extent to which the government has fulfilled this commitment.

**Legal context of intellectual property in agriculture**

**12.16** There are two main justifications for the existence of intellectual property rights. First is the philosophical notion that someone who comes up with a new idea should own that idea, and others should recognize the ownership. The second justification is the incentive to engage in research, development and commercialization. Protection of intellectual property rights brings the originator the potential for financial return. This, in turn, fosters new research and provides for improved products.

**12.17** To obtain a patent, an inventor must fully disclose the inner workings of the invention. In return, a patent provides an inventor with a limited monopoly on the new process or product. To be granted a patent, an invention must display a novel use, or a new or improved way of doing something — for example, a better mousetrap or a new type of telephone. In the agriculture sector, the Canadian Patent Office is allowing inventors to patent biotechnological processes that can produce new characteristics in plants. However, to date it has not granted patents for inventions that are new higher forms of life, such as plants and animals. In other words, a Research Branch scientist can patent a process used to produce a new life form, but not the life form itself.

A scientist can patent a process used to produce a new life form, but not the life form itself.

**12.18** The *Plant Breeders' Rights Act* is a way of providing "patent-like" protection for cultivated plants in Canada. However, this protection has some key differences from general patent protection. For example, the *Plant Breeders' Rights Act* allows producers to save seed from crops they have grown in order to produce crops in subsequent years. If a patent protected the plant variety, this would not be permissible. Various organizations have estimated that roughly 70 percent of the grain on the Prairies is grown from

## Management of Intellectual Property in the Federal Government

### What Is Intellectual Property?

Intellectual property includes inventions; computer software; trademarks; literary, artistic, musical or visual works; plant varieties and other biological materials; and know-how. Because it is a potentially valuable asset and can yield economic benefits, intellectual property warrants effective management, including appropriate protection.

The tools for protection can take different forms. For example, inventions may be protected by patent and registered industrial design; software and literary, artistic and musical works may be protected by copyright.

Intellectual property is generated by the federal government in a variety of ways — for example, as a result of research conducted by federal departments, research contracted with outside suppliers, collaborative research, and research supported through grants and contributions.

### The Science and Technology Strategy Commitment on Intellectual Property

In its 1996 Strategy, *Science and Technology for the New Century,* the federal government made the transfer of knowledge and technology an explicit objective of its activities. The Strategy stated that the existing federal policies to encourage the transfer of intellectual property from federally supported research to the private sector needed to be communicated better, applied more evenly and assessed regularly for effectiveness. The government committed itself to immediately review its intellectual property policy in order to determine what improvements could be made to increase opportunities for commercialization and partnerships with the private sector.

### The Government Still Lacks a Comprehensive Approach

We looked at what progress had been made in meeting the commitment made in the Strategy. While we found that some limited initiatives are under way, there is still no comprehensive approach to the management of all intellectual property generated by the federal government.

Industry Canada is leading an exercise to revise the 1991 Treasury Board policy governing the ownership of intellectual property arising under Crown procurement contracts. The objective of the new policy is to increase the potential for its commercial exploitation by having the ownership rest with the contractor. The policy will go into effect six months after its approval, following communication of the changes and opportunities for departmental contracting officers to receive training.

In late 1998, Industry Canada initiated discussions with the Assistant Deputy Ministers Committee of Science and Technology about the need for a comprehensive approach to the management of intellectual property in the federal government. Discussions are ongoing but a clear action plan is not yet in place.

In June 1999, the Advisory Council on Science and Technology (ACST) published its expert panel report, *Public Investments in University Research: Reaping the Benefits.* The report makes a number of recommendations to government to strengthen the exploitation of intellectual property generated by federally funded university research. However, the report deals with only one facet of intellectual property management (federally funded university research) and is not linked to a government-wide policy.

In 1997 the Federal Partners in Technology Transfer, a forum of representatives from 15 departments and agencies, published *Guiding Principles for the Management of Intellectual Property Issues.* The principles provide guidance on managing intellectual property throughout the government. Unfortunately, the principles do not have the force of policy and their application by departments and agencies is voluntary.

### Conclusion

The federal government develops intellectual property in a number of different ways. Although it is making progress in the management of intellectual property arising out of Crown procurement contracts, we have concluded that the commitment made in the Strategy has not yet been met. A comprehensive approach to the management of all intellectual property generated by the federal government has yet to be developed.

The challenges identified in the current audit of intellectual property management at Agriculture and Agri-Food Canada are an indication of the growing complexity of these issues for departments. A clear statement of the government's expectations for how departments should manage intellectual property would ensure that departments and agencies share a common understanding of what is expected, and that they have reasonable flexibility to establish practices that respect their mandates. Many of the building blocks are now ready or soon will be. The policy on intellectual property arising from Crown procurement is being revised. The Federal Partners in Technology Transfer have published guiding principles for the management of intellectual property issues. The Expert Panel on the Commercialization of University Research has reported to the Prime Minister's Advisory Council on Science and Technology and the report's recommendations are being discussed with federal, provincial, university and private sector stakeholders. It remains for the government to pull the components together into a comprehensive policy framework.

producers' bin seed. As well, the *Plant Breeders' Rights Act* does not limit someone else from using a protected plant variety for further research work. Plant breeders' rights protection is considered weaker than patent protection.

**The market for Research Branch technologies**

**12.19** For many companies in the private sector, the key to maintaining a good return to shareholders is often based on the exploitation of intellectual property. Those companies invest a great deal to develop a technology or product that will give a clear market advantage over their competition. Companies go to great lengths to protect their intellectual property to ensure that revenue and competitive advantage are not lost. Under some circumstances, a company may decide that the maximum return can be achieved by licensing the protected technology or product.

Many of the Branch's research results have broad applications that directly benefit producers and have little licensing potential.

**12.20** A parallel exists in government departments that conduct research and development leading to new technologies and products. However, the market for these technologies and the very purpose of intellectual property management have to be considered in a broader context than is the case in the private sector. The focus of the Research Branch's efforts is on initiatives for the public good. In some circumstances, these efforts can result in the development of a technology or product that can be transferred to the agri-food sector through licensing. The Branch makes the transfer in the belief that maximum benefit to the taxpayer and the agri-food sector will accrue through commercial exploitation by the private sector. The Branch considers licensing revenue to be primarily a tool to ensure sound management of the license and the associated intellectual property.

**12.21** Many of the Branch's research results have broad applications that directly benefit producers and have little licensing potential. The main value of public research and development in the agri-food sector lies in the effect on the national economy and not simply in the revenue stream from license fees.

**Focus of the audit**

**12.22** This work was completed in conjunction with the audit of user charges in the agriculture portfolio. The objectives of our audit were to determine whether the Research Branch properly manages the acquisition and release of intellectual property. We also wanted to determine whether the Research Branch uses regular strategic review of information and experience to improve the management of intellectual property.

**12.23** The audit focussed on intellectual property that is administered solely by the Research Branch. Specifically excluded from the scope of our work was the Department's Agri-Food Research and Development Matching Investment Initiative, under which the disposition of intellectual property is determined by prior agreement between the Branch and private sector research collaborators.

**12.24** More details about how the audit was conducted are at the end of the chapter in **About the Audit**.

## Observations

### Challenges Facing the Research Branch

**12.25** In managing its intellectual property, the Research Branch faces a number of challenges — both internal and external. In addition to managing the acquisition and release of patents and new plant varieties, it has to maintain an asset management regime that ensures an effective portfolio of intellectual property. To be effective, the portfolio must:

- support the goals of the Branch, the Department and the government, and be able to improve the ongoing

competitiveness of the Canadian food and agricultural sector through the development and transfer of innovative technologies; and

- earn a fair return to the Canadian public for access to, and exploitation of, these publicly owned resources.

**Limits on the Branch's freedom to fulfil its mandate**

**12.26** As noted earlier, perhaps the Branch's most urgent intellectual property issue is that its freedom to pursue its mandate is being challenged by its use of intellectual property developed elsewhere. The Branch is using in the order of 100 technologies that have been patented by others. It appears that the use of these technologies in its research programs is significant, but the full extent is not yet known.

**12.27** The Branch's ability to continue providing the agriculture sector with innovations will be at risk until it is able to secure rights to the technologies that it requires. Unless it does so, its research products may not be transferable to the agri-food sector. The Branch has recognized the need to secure the rights to use these technologies and is endeavouring to develop a co-ordinated approach to pursuing licenses to these patents. Should it encounter significant obstacles to procuring the rights to use these proprietary technologies, the Branch may have to alter, postpone or abandon current research initiatives.

**12.28** An example of this situation is the case of potatoes that were genetically modified at the Branch's Pacific Agri-Food Research Centre to resist certain viruses. To modify the potatoes, the Research Centre used several patented technologies, at least one of which belonged to Monsanto Company. When Monsanto became aware of the Branch's interest in developing these varieties for commercial use, it understandably raised the issue of its prior intellectual property rights. Moreover, Monsanto has its own interest in developing virus-resistant potatoes. To date, this potato has not been developed for commercial use.

**The Branch's most urgent intellectual property issue is that its freedom to pursue its mandate is being challenged by its use of intellectual property developed elsewhere.**

**12.29** In addition to being limited by the intellectual property rights of other research organizations, Branch managers told us that they are concerned about being limited by different approaches to intellectual property in other jurisdictions. For example, while the Canadian Patent Office does not allow the patenting of higher life forms, the United States Patent Office does. Similarly, there are concerns that other jurisdictions may be much more flexible in defining what constitutes a new invention. For example, a patent application was recently filed to grant protection for canola with a "yellow seed coat" characteristic. Canadian researchers consider that the "yellow seed coat" characteristic is in the public domain and is not patentable because it is commonly found in Asian varieties as well as a Canadian variety. Branch management considers the patent application to be relatively narrow and believes that it would likely permit the production of yellow seeded canola by other means. However, some researchers remain concerned about the patent's effect on this area of the Branch's research activity.

**Keeping up with its environment**

**12.30** According to Industry Canada, worldwide agri-food biotechnology activity in the year 2000 is estimated at US $2.5 billion and is projected to rise to US $9 billion by 2005. Scientific breakthroughs of the 1970s are resulting now in viable commercial products, and the pace of change is rapidly increasing. In addition, the growing market has attracted many more players, and some are very aggressive in marketing and protecting their intellectual property. Intellectual property related to biotechnology has been hotly contested, with court decisions awarding hundreds of millions of dollars to patent holders.

**The Branch may have to alter, postpone or abandon current research initiatives.**

**A growing market for genetically modified plants has generated a pace of change that requires the Branch to develop new management regimes much more quickly.**

**12.31** So far, the Branch has followed an evolutionary, conservative approach to managing its intellectual property. It takes roughly 12 years to breed a new variety of plant, and this amount of time allows for a gradual developmental approach to management. It took roughly 20 years for the Branch to move from essentially giving away its varieties in the 1970s to using a competitive bidding process today as a means to obtain fair market value for plant variety licenses. A growing market for genetically modified plants has generated a pace of change that requires the Branch to develop new management regimes much more quickly.

### Uncertainty within the Research Branch

**12.32** The Branch has undergone significant changes over the past five years, not the least of which has been the shrinking of its full-time work force from more than 3,000 to just over 2,000. At the same time, there has been significant decentralization of intellectual property management and a reorientation to collaboration with private sector players. The result has been uncertainty about how best to manage intellectual property:

- Managers in the Branch's research centres have devised different approaches to commercializing new plant varieties. There are differences in their timing of a new variety's release, in their payment regimes for new licenses and in the criteria they use when evaluating proposals to commercialize a variety. While this may be partly a reflection of different commodities and different local markets for different research centres, these factors cannot entirely explain such a range of approaches (see Exhibit 12.2).

- During our audit, researchers reported that they were not certain how to decide whether to publish new scientific breakthroughs in journals or pursue legal protection for their discoveries.

- The Research Branch has two lawyers on staff for advice on intellectual property but, due to the size and decentralized nature of research operations and the rapid change in this area, some researchers and managers are uncertain about the legal framework for intellectual property. For example, under its current arrangements for licensing varieties, the Branch grants a licensee permission to enforce intellectual property rights as circumstances arise. However, we were told that the Branch has yet to clarify and communicate the circumstances in which it will enforce its intellectual property rights in its own behalf. Given the competitive marketplace, the Branch believes its best approach is to make decisions to enforce its rights on a case-by-case basis.

### Obtaining the views of all Canadians

**12.33** The Department maintains a close working relationship with the agri-food sector — and particularly, in the case of the Research Branch, with seed companies and companies engaged in agricultural and agri-food-related research.

Exhibit 12.2

**Management Uncertainty Results in Different Approaches to Licensing Plant Varieties**

Both the Eastern Cereal and Oilseed Research Centre in Ottawa and the Cereal Research Centre in Winnipeg release their respective cereal varieties by separately inviting marketing proposals from outside organizations.

The Ottawa centre checks the proposals to make sure they comply with the submission requirements and criteria. These criteria include the past performance of the organization and the proposed marketing plan for the new variety. After screening, the organization proposing the biggest initial payment is chosen as the future licensee.

The Winnipeg centre evaluates the proposals using a multi-dimensional worksheet that integrates the past performance of the organization, the proposed marketing plan for the new variety and the present value of all proposed payments.

In Ottawa, immediate financial return is the key final decision factor, while in Winnipeg it is only one of many factors. Which decision process best meets the objectives of the Research Branch?

As one Branch employee said, "Everyone knows everyone else."

**12.34** The form of this relationship is complex and varied. Private sector researchers and managers have attended the same schools as their Research Branch counterparts, may have worked at the Research Branch in the past, and may belong to the same professional organizations. In addition, a number of companies ensure that they have staff tasked with keeping track of developments taking place in the Research Branch laboratories spread across the country. The relationship between the Research Branch and its client group is very close.

**12.35** Given this close relationship with the agri-food sector, the Branch faces the challenge of ensuring that its approach to intellectual property management reflects the views of all interests, including those of producers and the general public. The Branch has a number of consulting mechanisms that it uses to determine its research priorities and co-ordinate the transfer of research and technology with other organizations. These mechanisms include the Canadian Agri-Food Research Council, the Research Branch Advisory Committee and advisory committees at the Branch's research centres. However, we did not identify a systematic approach to consulting these or other groups about the Branch's management of intellectual property. During the audit, researchers told us that in the absence of such a mechanism they feel that they have become the sole guardians of the public good.

**Difficult resource decisions to be made**

**12.36** The Research Branch's budget was cut by approximately 20 percent between 1995 and 1998 and it lost approximately 1,100 full-time equivalent employees. While intellectual property decisions once were managed centrally from Ottawa, they have largely been devolved from the Research Branch headquarters to the research centres.

**12.37** The resources needed to protect intellectual property are considerable and compete directly with other resource requirements of the research centres. We were told that it can take up to $100,000 to support a patent submission. We were also told that the process can take one year and a substantial amount of a researcher's time away from ongoing research. This means that decision makers are faced with the difficult question of whether the future benefits of patenting will exceed the future costs. Biotechnology researchers told us that they could each probably come up with one or two patentable ideas every year if they had adequate support.

**12.38** The research centre directors with whom we spoke could not point to any formal guidance from Ottawa on how best to make decisions on the use of intellectual property resources.

**Understanding the market for intellectual property**

**12.39** Acquiring, selling and protecting intellectual property requires substantial organizational resources and knowledge about the market for intellectual property. Management needs to understand the market to set realistic expectations for new intellectual property and to evaluate the performance of its existing portfolio. The Branch conducts market studies to support research planning. Also, it provided us with a study in which it had evaluated the market for a new technology, but we were unable to identify any other systematic assessments of the market for Branch intellectual property or an assessment of the impact of its licensing regime. Researchers reported that they often have a sense of what the market for their research products might be. However, they also contended that in their role as research scientists they should not be the ones responsible for knowledge of the market.

**We did not identify a systematic approach to consulting interested groups about the Branch's management of intellectual property.**

**The research centre directors with whom we spoke could not point to any formal guidance from Ottawa on how best to make decisions on the use of intellectual property resources.**

**12.40** To help support the licensing of intellectual property, the Branch has created commercialization officers at the research centre level. These people assist in patent filing, and are also tasked with helping to negotiate matching investment agreements and managing the release of new plant varieties. It is unlikely that they would have the time to spend on a strategic assessment of the intellectual property market.

**Research centre directors, managers and researchers need a structure for making decisions about intellectual property.**

**Lack of information for managing**

**12.41** To manage an asset, whether a building or intellectual property, an organization needs to know how much of the asset it has, its location, and its value in terms of both its ability to generate revenue and its broader public benefits. The Research Branch is unable to fully answer these fundamental questions. For example, it could readily tell us how many plant varieties were earning revenue but could not easily tell us how many released varieties it currently has, and how many are generating no revenue.

**12.42** Similarly, the Branch needs to define management's performance expectations for its portfolio of intellectual property. It also needs to develop a reporting regime that adequately recognizes the dual objectives of providing Canadian research products that help to keep the agriculture sector competitive and earning a fair return on publicly owned resources. Performance expectations could, for example, be set for the financial return to the portfolio, or the extent to which producers adopt new varieties.

**12.43** In recent years, the Branch has made some progress in that it is able to report how many plant varieties it has released in a year. It can also report on significant earnings. The need to improve information systems in all research-oriented departments was recognized by the government in its 1998 update of the federal Science and Technology Strategy.

## The Way Forward

**12.44** The challenges the Branch is facing are mostly due to changes in the Branch and in its environment. In some cases, the changes have a direct bearing on the commitment the Branch has made to innovate for a sustainable future for agriculture. These changes can hamper the Branch's ability to provide research inventions to the agriculture sector and can make it possible for other organizations to patent the Branch's research output and potentially restrict its use. To address these challenges, Branch management needs to hasten and expand its efforts in some key areas.

**Framework to help guide decisions**

**12.45** Research centre directors, managers and researchers need a structure for making decisions about intellectual property. A decision-making framework would foster a consistent approach and help to ensure that the goals of the Branch, the Department and the government are met. This is particularly important in a decentralized "knowledge-based" organization like the Branch, with research centres spread across the country.

**12.46** A framework would support a number of key decisions that the Branch needs to make, for example:

- whether or not to protect or publish new scientific breakthroughs and how best to arrange the licensing of a technology or a plant variety. Among other considerations are the need to protect a future stream of revenue, and to guarantee future access for Canadians to the Branch's results;
- how to develop a portfolio of intellectual property that can be bartered in exchange for intellectual property held by the private sector;

- how aggressive the Branch should be in protecting its intellectual property rights; and

- whether to license a new technology from the patent holder or to develop the Branch's own solution.

The Research Branch is not alone in the need to deal with these issues. Some of them were faced in the first patenting of biotechnological inventions in the 1980s (see Exhibit 12.3).

**12.47** Starting points for developing a decision framework are the Branch's own 1993 technology management manual and the government's current review of intellectual property. The technology management manual needs to be updated to bring it into line with the changes that have taken place in the Branch. For example, the manual needs to reflect the role of the commercialization officers, the loss of the Branch's Industry Relations Office and the closer relationship that the Branch has with industry in areas such as the Matching Investment Initiative. It also needs to consider the more aggressive environment in which it must operate. The challenge will be to develop an effective decision framework that ensures some level of consistency while supporting the development of a more entrepreneurial culture, able to deal with the uncertainties of the commercial world. Exhibit 12.4 shows the major elements of what we would expect to see in a decision framework.

### Communication with Branch employees to foster an entrepreneurial culture

**12.48** Tied to the development of a framework for decision making is the need to clearly communicate the framework and foster an entrepreneurial culture among Branch employees. This communication could take many forms, including a training program. No matter what vehicle it chooses, however, the Branch needs to ensure that its employees understand its approach to intellectual property and that they understand and are secure in the role they play. We were told that information sessions on legal issues surrounding intellectual property are already being held. These could probably be developed and expanded to include briefings on the decision framework and to emphasize an entrepreneurial approach to intellectual property rather than the traditional bureaucratic approach.

**The Branch needs to ensure that its employees understand its approach to intellectual property.**

**12.49** Along with communication, the Branch could put in place mechanisms that would help foster an entrepreneurial approach. These might include, for example, changes in the way the Department rewards and recognizes the development of intellectual property.

### Enhanced management information and development of performance measures

**12.50** The Branch has made some moves to improve its information systems but it needs to do more. It is currently developing a database of all protected technologies used in its laboratories, and assessing whether to pursue licenses from their owners or replace them with the Branch's own technologies. At the time of our audit, the Branch had collected the data but had not yet checked them for accuracy or compiled them in a usable

Exhibit 12.3

**Dealing With Objectives for Intellectual Property: The Stanford University Experience**

In 1980, after dealing with resistance from its own researchers, Stanford University obtained one of the first biotechnology patents ever granted. Then, according to Niels Reimers, former director of Stanford's Office of Technology Licensing, it faced additional problems. How was the university going to "develop a licensing program consistent with the public service ideals of the university, encourage the application of genetic engineering technology for public use and benefit, minimize the potential for biohazardous development, and finally, provide a source of income for educational and research purposes?"

To meet these objectives, Stanford granted non-exclusive licenses that allowed access to all potential users of the patent. It also devised a rate scheme based on how the invention would be used in an eventual product, and included disincentives for use outside the United States. In addition, the license included guidelines on safe use of the invention.

form. Still needed also is a centralized system to keep track of the Branch's plant varieties and the performance of all the Branch's intellectual property.

**12.51** The Branch needs to establish management expectations against which to measure the performance of its portfolio of intellectual property. As we have noted, expectations could be stated in the form of the financial return to the portfolio or the extent to which producers adopt new varieties. Another step, one that private sector firms undertake, could be to measure and then seek to reduce the amount of valuable research in the Branch that is unpublished or unprotected. An "intellectual property audit" and the help of market experts could facilitate this.

**Strengthened consultative tools**

**12.52** The purpose of consultations between government departments and stakeholders is to allow people a voice in decisions that affect their lives, to improve the quality of those decisions and to provide transparency in the decision-making process. Given its central role in ensuring the success of Canadian agriculture, the Branch's approach to intellectual property affects a number of Canadians. To help ensure that it develops an effective decision-making framework

Exhibit 12.4

**Elements of an Effective Decision Framework**

The objective of a decision framework is to help ensure that all members meet the goals of the organization. The intent is to overcome the restrictions of distance and time while dealing with new circumstances. Senior management cannot afford to make all decisions, nor can it abdicate decisions to individual members of the organization and reasonably expect that management's vision will be achieved.

An effective decision framework sets boundaries and outlines priorities for decision making. The degree to which the framework is prescriptive depends on the goals of the organization, its structure, and the nature of its activities. Given the dynamic nature of the environment surrounding the Research Branch's intellectual property, a less prescriptive approach would likely be appropriate.

The elements of a framework to support decision making on intellectual property in the Research Branch would apply to both the acquisition and the release of intellectual property. Some suggested elements are listed below:

- The goals of decision making on intellectual property would be clearly stated and explained. The goals concerning the public good would be specified and any financial expectations stated. These would set out the Branch's response to Treasury Board's user charge policy requirements.
- The goals would be translated into strategic objectives and the financial and other resources needed (e.g. legal, marketing expertise) would also be outlined. These would support priorities among decisions and would help to communicate organizational constraints on intellectual property decisions.
- Measures to determine if the organization is achieving its strategic objectives would be identified, stated and put in place, and would relate achievements to the resources expended.
- A description of decision-making roles would specify who is responsible for what decisions and the scope of decisions that can be made. The scope of decision-making responsibility would be defined by the magnitude of the possible outcome.
- The key intellectual property decisions required by the Branch would be identified.
- Guidance would be provided on the timing of intellectual property decisions. Key factors would be the stage of an intellectual property's development and the expected value of that property in terms of both the public good and financial return.
- The requirements for information that might reasonably be factored into decisions would be outlined.
- Specific examples of "good" decisions and practices would be included, or communicated as they develop. This would help ensure that best practices in decision making are spread through the organization.
- The framework would be actively supported by Branch senior management and organizational responsibility for implementing and maintaining the framework would be stated.
- A timetable to regularly review the decision framework would be included.

**Source:** Developed by the Office of the Auditor General

for intellectual property, the Branch needs a way to incorporate a broad range of concerns.

**12.53** Agriculture and Agri-Food Canada has developed sophisticated ways to ensure that it interacts with a broad spectrum of stakeholders when it is making strategic decisions. Similarly, the Research Branch has mechanisms to help it obtain advice on what research it should undertake and on the transfer of technology. The Branch now needs to take advantage of these and perhaps other consultative tools to help it develop a strategy for its intellectual property.

## Conclusion and Recommendation

**12.54** This audit had two objectives. We wanted, first, to assess the quality of intellectual property management in the Research Branch, and second, to determine whether it is improving its management regime. Based on our audit work, it is apparent that the Branch needs to deal with a number of significant issues before we can say that it is adequately managing intellectual property.

**12.55** Particularly urgent is the risk to the Branch's continued ability to provide the agriculture sector with innovations, a risk that stems from its use in its research projects of intellectual property owned by others. Should it encounter significant obstacles to procuring the rights to use these proprietary technologies, the Branch may have to alter, postpone or abandon current research initiatives.

**12.56** There are clear indications that Branch management recognizes the challenges it faces and has begun efforts to deal with issues surrounding its freedom to operate. These efforts need to be hastened and expanded. The Branch needs to build a framework for better decision making, improve its information systems, broaden its consultations, and clarify roles for employees in a way that will foster a more entrepreneurial culture.

**12.57 Agriculture and Agri-Food Canada should ensure that the Research Branch develops and implements an overall approach to managing its intellectual property. The approach should be appropriately communicated to staff and support the development of a more entrepreneurial culture. Implementation should include the development of a decision framework for Branch staff, a statement of management expectations against which to measure performance, and the use of appropriate information systems.**

***Department's response:*** *The Department is pleased that the Office of the Auditor General recognizes that the management of intellectual property is a rapidly changing field and presents a complex challenge to research organizations in both the public and private sectors. Agriculture and Agri-Food Canada has been working to address these challenges as they have developed over the past nine years.*

*The Department welcomes recommendations on improving the management of any intellectual property issue and appreciates the useful suggestions for improvements made by the Auditor General. The Research Branch will work to develop a general framework for managing its intellectual property, and to communicate this approach to staff.*

**Based on our audit work, it is apparent that the Branch needs to deal with a number of significant issues before we can say that it is adequately managing intellectual property.**

# About the Audit

## Objectives

The objectives of our audit were to determine whether Agriculture and Agri-Food Canada's Research Branch:

- has properly managed both the acquisition and the release of intellectual property; and
- is using regular review of information and experience to improve the management of intellectual property.

## Scope and Approach

The audit focussed on intellectual property that is administered solely by the Research Branch. Specifically excluded from the scope of our work was the Department's Agri-Food Research and Development Matching Investment Initiative. Under that initiative, the disposal of intellectual property is determined by prior agreement between the Branch and private sector research partners.

We based our criteria on the Treasury Board user fee policy, private sector practices and available literature on intellectual property management.

We visited three research centres and evaluated and compared their respective regimes for managing intellectual property. Specific items of intellectual property were examined to determine how property has been licensed to the private sector. This work was supported by interviews with senior Branch management, research centre directors and staff.

## Criteria

We expected that:

- the Research Branch would have a comprehensive intellectual property strategy with clear objectives, and that this would be applied consistently in all areas where intellectual property existed in the Research Branch;
- the Research Branch would properly communicate the strategy to Branch employees so that managers and staff would understand it as well as their roles and responsibilities in managing intellectual property;
- meaningful and effective consultations would be held with stakeholders in relation to intellectual property management;
- performance expectations for intellectual property management would be set and appropriate information would be collected to assess whether the stated expectations were being achieved;
- a process would be in place for the periodic review of the management of intellectual property and this would include an analysis of results achieved against expectations; and
- the information gained from periodic review and from consultations would be considered for potential changes to intellectual property management and would be incorporated in the strategy and objectives of the Research Branch.

## Audit Team

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 13
National Defence – Hazardous Materials:
Managing Risks to Employees and the Environment

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

## Chapter 13

National Defence – Hazardous Materials:
Managing Risks to Employees and the Environment



September 1999

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# Chapter 13

## National Defence

## Hazardous Materials: Managing Risks to Employees and the Environment

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 13–5 |
| **Introduction** | 13–7 |
| Canada has extensive legal requirements governing hazardous materials | 13–7 |
| National Defence uses many hazardous materials | 13–8 |
| Departmental policy on compliance with provincial and municipal laws is not clear | 13–10 |
| Focus of the audit | 13–11 |
| **Observations and Recommendations** | 13–11 |
| **Risks to Employees and the Environment** | 13–11 |
| Inadequate implementation of protective mechanisms increases risk | 13–11 |
| Compliance in some areas has not improved since 1993 | 13–12 |
| The Department has not succeeded in fully implementing the Workplace Hazardous Materials Information System | 13–15 |
| There is a lack of training in hazardous materials | 13–18 |
| Inventory lists are inaccurate and incomplete | 13–18 |
| Storage practices are deficient | 13–20 |
| Respiratory protection programs are not fully implemented | 13–20 |
| **Monitoring of Continuing Emissions** | 13–20 |
| Outdoor air emissions are not adequately monitored | 13–20 |
| Sewage treatment program meets standards for biological contamination at low cost | 13–21 |
| Liquid effluent is not monitored for all contaminants that local standards limit | 13–22 |
| National Defence participates in national emission reporting programs | 13–26 |
| **Compliance Management at National Headquarters** | 13–26 |
| Managing for compliance reduces risks | 13–26 |
| National policy has some gaps | 13–26 |
| National plans, procedures and objectives met our expectations | 13–27 |
| National policies are not effectively communicated to the field | 13–28 |
| National hazardous materials audit programs are not complete or consistent | 13–28 |
| Performance measurement could improve compliance | 13–29 |
| Slow implementation of performance measures for sustainable development | 13–31 |
| Year 2000 certification of computer systems for hazardous materials is on target | 13–31 |
| **Compliance Management at Bases** | 13–31 |
| Base-level managing for compliance could be improved | 13–31 |
| Some promising developments were noted | 13–33 |
| **Choosing Safer Products** | 13–35 |
| **Conclusion** | 13–36 |
| **About the Audit** | 13–37 |

Page

**Exhibits**


| | | |
|---|---|---|
| 13.1 | Canadian Forces Base – Typical Activities and Types of Hazardous Materials Used | 13–9 |
| 13.2 | Hazardous Material Injuries – National Defence and Industries Performing Similar Tasks | 13–12 |
| 13.3 | Ten Most Common Hazardous Material Non-Compliance Findings 1993 to 1998 | 13–15 |
| 13.4 | Summary of Compliance Findings at Three Canadian Forces Bases | 13–16 |
| 13.5 | Safety Ratings – Self-Assessment by Eight Bases | 13–17 |
| 13.6 | Monitoring of Sewage Treatment Plant Effluent | 13–23 |
| 13.7 | Monitoring of Effluent Discharged to Municipal Sewage Treatment Plants | 13–24 |
| 13.8 | Monitoring of Storm Sewer Effluent | 13–25 |
| 13.9 | Proposed Environmental Performance Indicators for Hazardous Materials in Sustainable Government Operations | 13–30 |
| 13.10 | Assessment of Hazardous Materials Management Systems at 10 Bases | 13–32 |


**Appendix**


| | | |
|---|---|---|
| | ISO 14004 – Environmental Management Systems | 13–40 |

# National Defence

## Hazardous Materials: Managing Risks to Employees and the Environment

## Main Points

**13.1** Our audit at 10 Canadian Forces bases found widespread, frequent and recurring instances in which National Defence did not meet the legal and policy requirements that govern hazardous materials. Such instances may put employees and the environment at increased risk.

**13.2** The Department has made efforts to improve its management of hazardous materials. While there are few clear measures of the impact of these efforts, we did find that injury rates for hazardous material injuries that require at least one day off work declined by more than half from 1993 to 1997.

**13.3** The 10 bases that we audited do not periodically monitor their air or liquid effluent emissions for all hazardous material contaminants on which limits are set by federal laws or guidelines. As a federal agency, the Department is not legally bound by provincial or municipal laws and bases do not monitor emissions and effluents against all of those standards.

**13.4** There is a lack of information on the overall state of compliance with legal and policy requirements. The existing management systems to ensure compliance at the base and unit levels do not promote continual improvement. Objectives are not set, plans do not exist, audit and inspection programs are not consistent and performance information is lacking. These are major factors in the instances of non-compliance by the Department with legal and policy requirements.

### Background and other observations

**13.5** National Defence uses more than 6,000 hazardous products, such as gasoline, ammunition and battery acid. The Department estimates that at least one quarter of its 80,700 full-time employees come into frequent contact with hazardous chemical products, and that every worker may have some contact with hazardous materials.

**13.6** It is the Department's policy that its hazardous materials management activities must meet or exceed the letter and spirit of applicable federal acts, regulations, policies and guidelines and, where appropriate, be compatible with provincial acts and municipal and international standards. The Department has not defined the meaning of "where appropriate".

**13.7** Our audit focussed on how the Department is implementing its policy and programs related to hazardous materials. We looked at policies, procedures and results at National Defence headquarters, and conducted field work at 10 bases. We also reviewed how the Department is implementing relevant sections of its sustainable development strategy.

**13.8** Leadership is needed to set targets, to identify and monitor performance measures, and to follow up to ensure that programs are implemented. Commanders and managers have opportunities to demonstrate leadership when they revise the Department's sustainable development strategy and implement environmental management systems.

**The Department responded positively to all our recommendations and proposes to take action that should address the problems our audit identified. In particular, the Department told us it is committed to rectifying situations of non-compliance with the requirements of the Workplace Hazardous Materials Information**

**System; reviewing its effluent monitoring procedures and plans for air emissions; identifying provincial and municipal regulations and policies applicable at each base and wing; and establishing core requirements for audit and inspections to ensure consistency.**

**The Department did not fully accept our conclusions about the level of non-compliance, contending that its audits have identified relatively few instances each year.**

## Introduction

**13.9** Industrialized societies use many products that are regulated because they can harm people and the environment — for example, by exploding, catching fire, corroding, poisoning or irradiating. These hazardous materials include acids used in industry to etch metal, radioactive components in smoke detectors, most paints and paint thinners, fuels and oils, and bleaches and solvents for cleaning. Apart from their widespread use in the workplace, most Canadians would probably find a broad range of hazardous materials in their garage, in their garden shed, and under their kitchen sink.

**Canada has extensive legal requirements governing hazardous materials**

**13.10** Industrial societies will continue to use many hazardous materials until environmentally friendly substitutes become available at acceptable cost. Organizations and societies must therefore manage and minimize the risks of continued use. In Canada, an extensive and growing body of laws has established minimum standards that govern the use of hazardous materials.

**13.11** Federal laws govern labelling, safety instructions, training, protective devices, emergency response procedures, transportation documents, packaging, releases into the environment, storage, explosives and radioactive materials. Provincial laws parallel many of the federal laws but also govern outdoor air quality, transportation of hazardous materials within a province and disposal of hazardous wastes. Municipal by-laws regulate discharges of liquid effluent to sanitary and storm sewer systems. All of these laws establish a number of mechanisms to ensure the protection of workers and the environment.

**13.12** The Workplace Hazardous Materials Information System (WHMIS) is a national information system designed to protect Canadian workers. It is a systematic approach to identifying the hazards of a material, making safety data on the material available in the workplace and ensuring that workers receive appropriate training. The system groups materials into classifications based on their hazardous characteristics, and uses a set of symbols to identify the main classes. WHMIS consists of three components:

- A series of labels provided by either the supplier or employer indicate, at a minimum, the product name, safety information and a reference to a material safety data sheet.

- Material safety data sheets (MSDS) provide detailed information about products, such as ingredients; fire, explosion, reactivity and toxicological data; protection and emergency response measures; and contact names and telephone numbers. Suppliers are responsible for providing the sheets with their products, and employers are responsible for providing them to workers. The sheets must be updated every three years or whenever new information about the product becomes available.

- A training program for workers teaches them how to interpret information on labels and material safety data sheets, particularly those on the specific products they use in their workplace.

**13.13** For WHMIS to be effective, workers must have access to accurate and complete inventory lists of the hazardous materials they use. The lists allow workers to ensure that they have the correct MSDS on hand and that they are trained for the specific products they use. The lists also tell emergency response personnel the types and magnitude of hazards they may encounter in responding to a spill, fire or injury, so that they can protect themselves and deploy appropriate equipment. Inventory lists also assist in monitoring usage of products to ensure that minimum

**An extensive and growing body of laws has established minimum standards governing the use of hazardous materials.**

quantities are acquired and products are not duplicated.

**13.14** In addition to classification and symbols under WHMIS, the *Transportation of Dangerous Goods Act* establishes a second system of classification and symbols for transportation and storage. The classifications in the two systems are similar though not identical, and the symbols are entirely different. The symbols of both systems are often used together on a product.

**13.15** Proper storage is essential to protect workers and ensure that hazardous materials do not escape into the environment. Ideally, their storage should be apart from other materials, have limited access and meet recognized standards. Depending on the material, storage facilities may be designed to withstand fires or explosions or to contain spilled material. They may be heated and ventilated, and equipped with particular types of emergency systems such as vapour detectors, sprinklers and explosion-proof lighting. Limits on the size and storage capacity of facilities depend on the nature of the material. Because many hazardous materials react when they come into contact with each other and produce an explosion, fire or toxic gas, there are various tables and compatibility charts to guide workers in identifying incompatible products so they can be stored separately.

**13.16** Some types of activities and facilities require licences or permits — for example, air emissions, storage of radioactive materials and ammunition, and facilities that generate hazardous waste. A licence or permit may provide standards against which to check quantities and activities, or may require tracking of activity over time.

**13.17** For many hazardous materials, there are legal limits on the quantities to which workers can be exposed or that can be released into the environment. A worker's exposure to hazardous materials can be measured by requiring periodic medical checks, conducting air quality or swipe tests of the workplace, or providing radiation workers with dosimeters. (Our audit of the Department's measuring of workers' exposure was limited to observing some respiratory protection practices at bases.)

**13.18** Where their exposure levels could exceed allowable limits, and other means to eliminate the hazard are unavailable or ineffective, workers must be provided with personal protective equipment, properly fitted, and be trained in its use. We did not audit the availability or appropriateness of protective equipment at National Defence facilities.

**13.19** Releases into the environment through air emissions, sewage or stormwater also can be measured periodically to establish that legal limits on concentrations of hazardous materials are not exceeded.

**13.20** Emergency response equipment and trained emergency response personnel are to be available to limit injuries and prevent the further escape of material into the environment. We did not audit the availability of emergency response capabilities at National Defence.

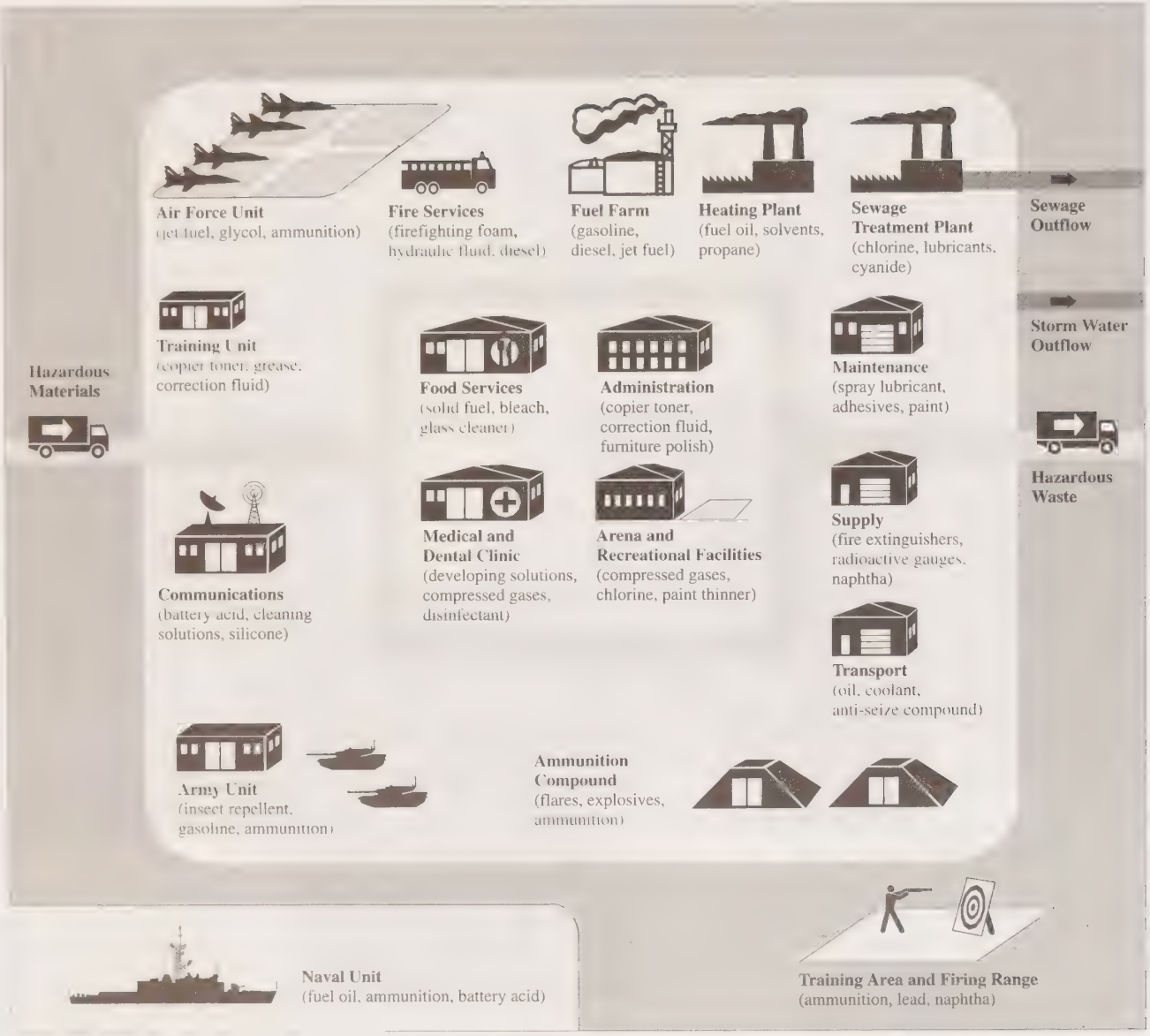
### National Defence uses many hazardous materials

**13.21** National Defence defines hazardous materials as "any material that, if handled improperly, can endanger human health and well-being or the environment or equipment. Some examples... are poisons, corrosive agents, flammable substances, ammunition and explosives." This chapter, unless otherwise specified, uses the term "hazardous materials" to include ammunition and radioactive materials as well as hazardous chemicals and polychlorinated biphenyls.

**13.22** The Department uses more than 6,000 hazardous products. Exhibit 13.1

Exhibit 13.1

Canadian Forces Base – Typical Activities and Types of Hazardous Materials Used



illustrates typical activities at a Canadian Forces base, and examples of the types of hazardous materials that are used.

**13.23** According to estimates by the Department, at least one quarter of its 80,700 full-time employees come into frequent contact with hazardous chemical products in the workplace. In addition to those are 293 military and civilian ammunition technicians who have frequent contact with ammunition; and 1,132 employees who wear dosimeters because they work with the more radioactive materials in the Department's inventory. Many contractors also come into contact with hazardous materials on departmental property, and so may the 29,400 reservists in the course of their part-time duties.



*Every employee comes into some contact with hazardous materials during the course of the day (see paragraphs 13.23–13.24).*

**13.24** The Department estimates that every worker, like many in light industrial facilities and offices, comes into some contact with hazardous materials during the course of the day. Soldiers may work with ammunition or cleaning solvents for weapons. Even office workers may use cleaning supplies or toner for photocopiers and printers.

**Departmental policy on compliance with provincial and municipal laws is not clear**

**13.25** National Defence is exempt from all or part of many federal laws governing hazardous materials. In general, the exemptions exist to allow the Department to take actions during military operations that might not be appropriate during peacetime or by civilians. As a federal agency, the Department is not subject to most provincial and municipal laws.

**13.26** It is the Department's policy that its hazardous materials management activities "must meet or exceed the letter and spirit of all applicable federal acts, regulations, policy and guidelines and, where appropriate, be compatible with provincial acts, regulations and guidelines and municipal and international standards." National Defence has not defined what it means by "where appropriate", and as a result it is not clear in what circumstances the Department's actions will be compatible with provincial, municipal or international laws and standards. For example, the Department conforms to provincial regulations on hazardous waste generation, and recently made a commitment to be compatible with the applicable standards in provincial and municipal laws governing sewage treatment plant and stormwater discharges. However, the Department has made no commitments to meet provincial laws governing air quality and permits for potentially contaminated air emissions,

nor to meet the mainly municipal laws governing sanitary sewer discharges to municipal systems.

**Focus of the audit**

**13.27** This audit focussed on how National Defence is implementing its policy and related programs on hazardous materials. Specifically, it was intended to determine whether the Department:

- minimizes the risks to its employees' health and safety and to the environment;
- has systems in place that are effective in ensuring ongoing compliance with applicable laws, regulations and policies; and
- has established appropriate sustainable development targets for hazardous materials and can measure its performance in meeting them.

**13.28** Further information on our audit scope, criteria and approach can be found at the end of the chapter in the section **About the Audit**.

## Observations and Recommendations

### Risks to Employees and the Environment

**Inadequate implementation of protective mechanisms increases risk**

**13.29** As we have noted, there are protective mechanisms that Canada requires in the workplace where hazardous materials are used (paragraphs 13.12 to 13.20). When these protective mechanisms are not in place, workers and the environment are placed at increased risk, of two kinds:

- accidents, leading to injuries and contamination; and
- ongoing exposures, leading to chronic illness and contamination.

**13.30** In fact, National Defence's rate of injuries related to hazardous materials and requiring at least one day off work fell by more than half from 1993 to 1997. The injury rate among military personnel has been consistently low in comparison with workers performing similar tasks in industry. The rate among civilian employees has fallen by two thirds since 1993 and is now lower than levels in comparable industries (see Exhibit 13.2). However, both the military and civilian rates increased in 1998, although the rates remain below 1 per 1,000 employees. At the time of our audit, comparable information from industry was not available for 1998.

**From 1993 to 1997, the rate of hazardous material injuries that require at least one day off work declined in National Defence by more than half.**

**13.31** Information on contamination is more problematic. While the Department requires the reporting of hazardous material spills, until this year (1999) some discretion in reporting was allowed; moreover, the information was entered into databases that are not compatible. Spills considered "significant incidents" were reported to National Defence headquarters; 58 such spills were reported in 1998, ranging from half a litre to 17,500 litres. The Department recently issued a spill reporting directive and developed a spill reporting computer program, which may address the concerns about inconsistent reporting requirements and incompatible databases.

**13.32** Environmental baseline studies and subsequent assessments conducted at all Canadian Forces bases since the mid-1980s have identified significant contamination caused by hazardous material use and accidents. National Defence has developed a database to track its contaminated sites, many of which it believes were contaminated by leaking underground storage tanks or by technology and management practices used in the past. Remediation and monitoring costs are borne by National Defence headquarters for sites contaminated before 1993, and by bases for their sites contaminated since then.

Efforts have been made to improve storage facilities, the availability of emergency response equipment, and spill response training.

The contaminated sites database lists 530 sites on the 10 bases we audited, and headquarters expects to spend $17.3 million on them over the next five years. While it is likely that most of the sites were contaminated before 1993, the database does not identify when the contamination occurred. We did not audit the management and remediation of sites where soil and groundwater contamination have been identified.

**13.33** As well as clean-up costs, financial liabilities from claims, fines or prosecutions can result from failure to implement legally required protective mechanisms. To date, the Department has pleaded guilty twice for violations of the *Fisheries Act*, and has been ordered to pay $42,021.

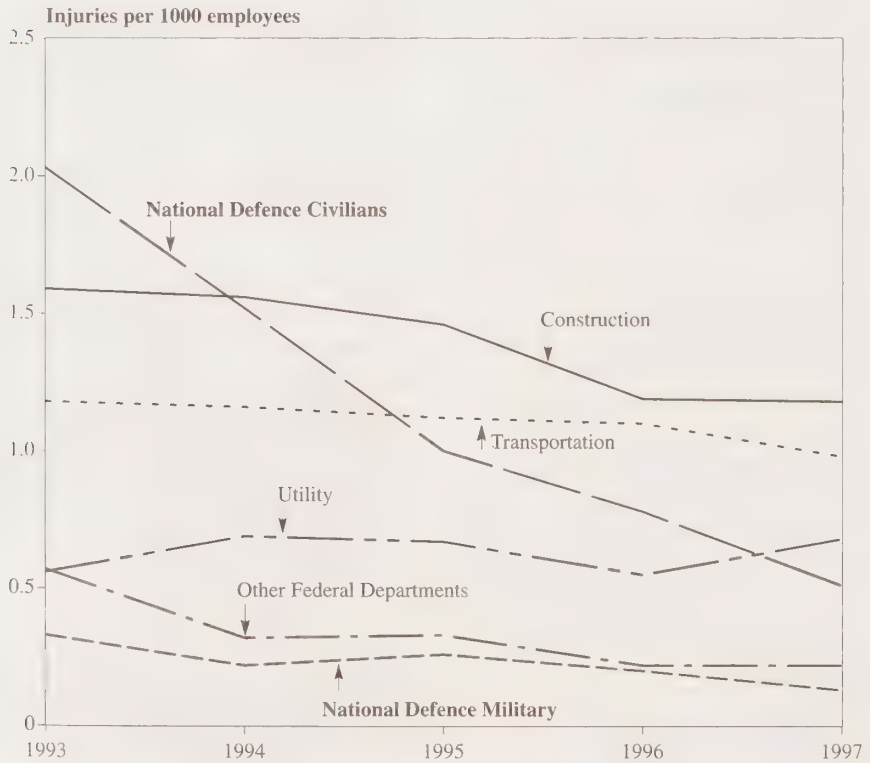
**Compliance in some areas has not improved since 1993**

**13.34** In recent years, National Defence has made a significant effort to improve some aspects of hazardous materials management. Since 1993, headquarters has made available approximately $9 million through the Corporate and Incremental Environmental Programs to improve storage facilities, purchase emergency response equipment, and provide spill and emergency response training. Bases have also acquired equipment with their own budgets. Efforts have been made to identify and disseminate good practices. A database of best practices, most of which address hazardous materials, has been created for the Land Maintenance System. National Defence headquarters is developing a plan to implement the practices, where operationally feasible and cost-effective.

**13.35** Given these efforts, we attempted to assemble an overall picture of compliance with hazardous materials laws and policies at the 10 bases we audited. We examined the reports of all external and departmental audits and inspections conducted from 1993 to 1998 in order to

Exhibit 13.2

Hazardous Material Injuries – National Defence and Industries Performing Similar Tasks




**Source:** Association of Workers' Compensation Boards of Canada; Statistics Canada; National Defence Directorate of General Safety

identify instances of non-compliance. We also conducted audits of compliance at three bases: Cold Lake, Gagetown and Halifax. Finally, we examined all the reports on Safety Program Development and Evaluation Technique (SPDET) assessments conducted from 1993 to 1998. These are self-evaluations conducted by units and bases; they provide a rating out of 100 points for each of 16 components of an organization's safety program. The technique includes a section specifically on hazardous materials safety, but several other sections also contain relevant elements.

**13.36** We found that many different types of departmental inspections have been conducted at the 10 bases, generally reflecting the different responsibility areas of the base safety and environment officers. Inspection frequency has varied widely, though it has generally increased in the last two years. Inspections of National Defence facilities by other federal departments responsible for enforcing hazardous materials laws are also uneven in frequency and coverage. We found that inspection methods were rarely similar across a base, or at the same unit for two or more years.

**13.37** Because of the variety of inspection methods and the gaps in coverage, the inspection data cannot be aggregated to provide performance information on trends or the overall state of compliance, at individual bases over time or across bases. The data indicate, however, that from 1993 to 1998 there were more than:

- 800 instances at the 10 bases when applicable federal legal requirements governing hazardous materials were not met;
- 450 violations of the federal Fire Code; and
- 200 instances of failures to meet departmental or federal policy requirements.

**13.38** The audits and inspections also identified approximately 120 additional instances where best management practices were not followed.

**13.39** Complying with legal and policy requirements ensures that the minimum standards or risk levels established by regulatory authorities or the Department are met. The degree to which a failure to comply with legal and policy requirements increases the risk inherent in the use of hazardous materials is very dependent on the circumstances. A relatively minor oversight, especially if combined with others, can lead to a serious accident. Examples can be found in the Department's widely distributed safety publications. While individual instances listed in the Department's audit and inspection reports may have been corrected, we found that certain problems seem to recur over time and across bases (see Exhibit 13.3).

**Inspection data showed more than 1,400 instances when legal and policy requirements governing hazardous materials were not met.**

**13.40** We observed the common compliance failures listed in Exhibit 13.3, as well as several others, during our audits of Canadian Forces bases at Halifax, Gagetown and Cold Lake. There was a noticeable difference among the three bases in the general levels of management and compliance. We consider Halifax to be in the best state of compliance, with Gagetown next; Cold Lake faces significant compliance and risk issues. A general summary of what we found at the three bases is provided in Exhibit 13.4.

**13.41** The frequency of Safety Program Development and Evaluation Technique assessments is also uneven. None had been conducted at two of the bases in our sample, and the number conducted each year at the remaining eight facilities varied widely. There is no obvious trend in the results (see Exhibit 13.5), but the average ratings achieved in the SPDETs appear quite high; the Department considers that any rating of 75 percent or higher is acceptable. We question whether a rating of 75 percent for handling

hazardous materials can be considered acceptable: 90 percent of the points in SPDET assessments are for meeting legal requirements designed to protect the health and safety of workers. Moreover, as self-assessments, the SPDETs may contain a bias toward positive results. We note in particular the contrast between the situation we observed at Cold Lake during our audit and the high average rating of 94 percent achieved in SPDETs conducted there in 1998.

**13.42** A department-wide internal audit of hazardous materials management was conducted in 1991–93. The audit included site visits at four Canadian Forces Supply Depots and their support bases, two of which were also in our audit sample. The internal audit observations were similar to our own in a number of compliance areas, particularly inventory information and the use of WHMIS. We concluded that in the last six years, compliance in these areas has shown little or no improvement.

*A relatively minor oversight can lead to a serious accident (see paragraph 13.39).*

### A Bad Mix

A Canadian Forces serviceman approached the floor-washing task with gusto. To obtain the best results possible, he decided to concoct a stronger cleaning solution, so he mixed the contents of two very similar and poorly marked opaque plastic containers — vinegar and bleach — in the bucket.

WRONG! Our zealous serviceman was overcome by the gasses given off and required hospitalization as a result. Luckily, it doesn't appear that he will suffer a permanent disability or any long term harmful health effects. it could have been fatal. When combined, vinegar and bleach produce a potentially lethal gas.

Make sure that cleaning fluids are kept in well-marked and labelled containers, read the labels carefully, and don't mix incompatible material.



DND Safety Digest - Edition 1 1998

### Check Fuel Levels Safely, Don't "Check Out"!

A soldier, let's call him Charlie, was on guard duty at a bivouac site when the heater ran out of fuel during the evening. He and several other soldiers went to get some fuel. It was dark and there were many jerry cans, both full and empty, in the petrol, oil and lubricants (POL) point. One of his companions, who we will call Ralph, picked up a full can next to one marked diesel and proceeded to fill the heater. He wasn't able to see if the heater tank was full so he put the can down to check. At the same time, Charlie decided to use his lighter (there was no flashlight) to check the fuel level. He reasoned that diesel fuel fumes do not readily ignite when subjected to open flame. With a "flick of his Bic," he transformed himself into a human torch. He had ignited the fumes, which were coming from the tank. It turns out that Ralph had inadvertently filled the heater tank with gasoline instead of diesel. Charlie's upper body was engulfed in flames, which caused second degree burns to his face and neck. While his recovery was a long and painful process, Charlie's injuries will not result in a permanent disability.



Adhering to the following safety rules would have prevented this near tragedy:

- ❑ Store POL products properly and ensure they are clearly marked and segregated.
- ❑ Ensure that flashlights (and filters if tactically required) are available if night operations are planned.
- ❑ Never use any type of open flame around fuel containers or when refueling vehicles or equipment.

DND Safety Digest - Edition 2 1998

**The Department has not succeeded in fully implementing the Workplace Hazardous Materials Information System**

**13.43** Compliance with all three elements of WHMIS is weak. In a sample of 229 hazardous products, the 1993 internal audit found that 38 percent were not labelled. Departmental audits and inspections since 1993 have noted inadequacies in WHMIS labelling every year at Cold Lake, and frequently at five other bases. At all three bases we examined in more detail, we saw unlabelled drums at several locations and hazardous liquids dispensed from drums into smaller containers that often were unlabelled.

**13.44** Even weaker is the implementation of the second WHMIS component, the availability of up-to-date material safety data sheets for all hazardous materials used. Departmental inspections that included WHMIS found deficient MSDS at every base in every year for which data were available, except the base at Wainwright in 1998. There were 76 instances of deficient MSDS reported at the nine other bases in 1998. Our three in-depth base audits found hazardous products base-wide whose data sheets were unavailable or out-of-date.

**Lack of container labelling is a problem.**

**13.45** We distributed a questionnaire to collect data on a sample of hazardous chemical products recorded on inventory lists at the 10 bases in our audit. Sample selection focussed on locally procured items, though some of the responses indicated that the selected item had been obtained through the national system. Further details about the sample selection process and response rates can be found in the section **About the Audit**. Of the

Exhibit 13.3

**Ten Most Common Hazardous Material Non-Compliance Findings 1993 to 1998**

| Finding | Risk or Hazard |
|---|---|
| 1. Inadequate or inappropriate storage locations | Risk of spill or fire, which could endanger personnel and the environment |
| 2. Deficient material safety data sheets (MSDS) | Information on handling procedures, first aid and hazard information unavailable to personnel using the material |
| 3. Inadequate and inappropriate signs on storage facilities | No warning to employees and emergency personnel of presence of hazardous materials |
| 4. Inadequate emergency response procedures | Risk to personnel or the environment due to proper procedures not being followed |
| 5. Training or training records missing | Danger to personnel who do not know the proper safety procedures |
| 6. Inappropriate management procedures | Risk of injury to personnel handling the material improperly |
| 7. No inspection process | Risk to personnel or the environment due to undetected problems in hazardous material storage |
| 8. No secondary containment | Possibility of spills entering the environment or exposing personnel to additional risk |
| 9. Inventory lists lacking | Risk that necessary training requirements are not determined and danger to firefighting personnel who will not be aware of the presence of hazardous materials |
| 10. Workplace Hazardous Materials Information System (WHMIS) labels missing | Danger to personnel who are unaware that they are using hazardous materials |

607 responses in our sample, only 28 percent had an up-to-date MSDS. We noted three types of deficiency:

- 30 percent were missing MSDS;
- 16 percent had MSDS that were over three years old and therefore out-of-date; and
- 26 percent used internally produced hazardous materials guide sheets. Since February 1994, Labour Canada (now part of Human Resources Development Canada) has not considered the guide sheets to be legally acceptable substitutes for MSDS.

**13.46** These results are very similar to the findings of the 1993 internal audit that examined the MSDS for a sample of 329 items. That audit found that 39 percent of the items were missing the MSDS and 12 percent had MSDS that were out-of-date.

**13.47** The devolution of responsibility for the purchase and management of hazardous materials in the Department has made it a laborious process to keep MSDS up-to-date. This is because different products may be in each of the widely scattered inventories of hazardous materials at departmental facilities, and the age of the MSDS for each product must be tracked and a new one obtained periodically. Information technology increasingly offers a solution to this problem, provided the available information meets Canadian legal requirements. Many MSDS are now available directly on the Internet. More can be found on commercially available CD-ROMs, and making these accessible through internal computer networks can expand their distribution.

**13.48** The Department has been developing its own hazardous materials information system to include electronic versions of MSDS. The Hazardous Materials Information Query, or Hi-Q, has been under development since 1996 but responsible authorities at several bases

Exhibit 13.4

**Summary of Compliance Findings at Three Canadian Forces Bases**

**CFB Halifax, 29–30 September 1998**

Hazardous materials are generally stored, handled and used in compliance with regulatory and National Defence requirements in buildings and on ships; hazardous materials and wastes located on the jetties are not always handled in accordance with these requirements. Staff interviewed during the audit were generally knowledgeable and aware of the handling requirements for hazardous materials and wastes.

**CTC Gagetown, 17–18 November 1998**

Hazardous materials management is very decentralized. Each unit is largely responsible for hazardous materials procurement, storage, handling, and disposal. A number of employees responsible for hazardous materials management within their units have not received Workplace Hazardous Materials Information System (WHMIS) training or spill response training. While some units appear to have good practices in place, improper handling practices, such as unlabelled containers and ungrounded drums used for dispensing flammable solvents, were observed at a number of locations throughout the base. This inconsistency indicates a lack of co-ordination and control over hazardous materials management. A number of locations where significant quantities of hazardous materials are stored are not secured to prevent spills or leaks of dangerous goods from entering the natural environment.

**4 Wing Cold Lake, 14–15 October 1998**

There is a high frequency of significant legal compliance issues associated with hazardous materials management. Some of these could entail a high level of risk. There is evidence of incremental contamination as a result of poor handling practices at the Hazardous Waste Facility, and many locations where significant quantities of hazardous materials are stored are not secured to prevent spills or leaks from entering the natural environment. While some squadrons appear to have good practices in place, the inconsistency in the application of these practices indicates a lack of co-ordination and control over hazardous materials management. The volumes of hazardous waste generated at this base appear high relative to the use of materials required for base activities.

indicated that they have had problems getting the system to work. However, version 3.0 (distributed in early 1999) may address some of these concerns. Initially, it was available only as a stand-alone system on CD-ROM, but Hi-Q has since been integrated with the Materiel Information Management System that is used mainly at base supply sections and headquarters.

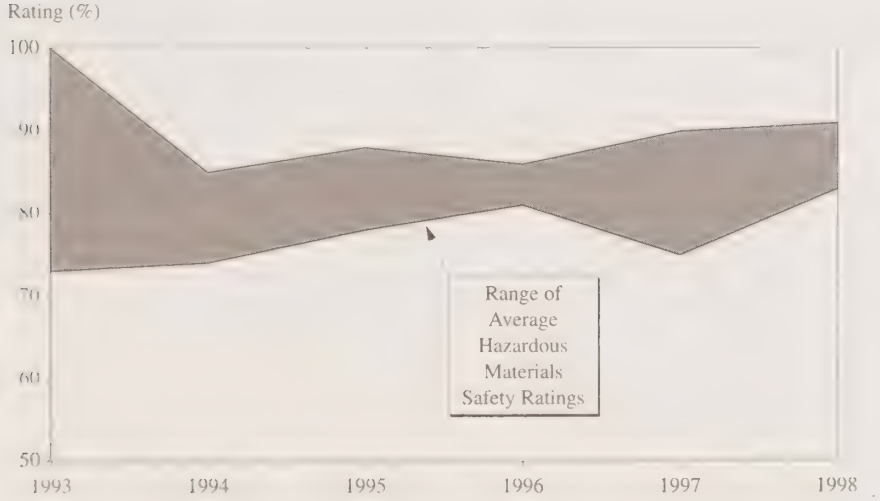
**13.49** Making Hi-Q more widely accessible will not alone resolve the problem of MSDS availability. When we compared MSDS on the Hi-Q CD-ROM with the 607 questionnaire responses on our product sample, we found up-to-date data sheets for only 41 percent of the responses (although some did not identify the product clearly enough to be sure it was the product on the disk). With Hi-Q in place, more MSDS on our sample items should now be available, but that will depend on access to Hi-Q information at the work site. Responsible authorities in the workplace will have to supplement Hi-Q with other sources of MSDS information, as they do now. We found, for example, that Hi-Q did not include 74 percent of the up-to-date MSDS we obtained on our sample.

**13.50 The Department should ensure that responsible authorities at National Defence workplaces meet the requirement to make available hazardous materials safety and environmental information, particularly material safety data sheets.**

***Department's response:*** *The Department is committed to rectifying situations where it is out of compliance with the requirements of the Workplace Hazardous Materials Information System. Accordingly, the Department will review and revise its standard operating procedures at all levels so that Material Safety Data Sheets (MSDS) accompany new products introduced into the Canadian Forces Supply System and introduced at Bases and Wings. The Department will establish a system to track the effective dates of MSDS and will review and revise its standard operating procedures to ensure that all data sheets are kept current. The revised standard operating procedures will define the responsibilities and the accountability of all personnel involved in these processes and will also address the issue of local procurement.*

Exhibit 13.5

**Safety Ratings – Self-Assessment by Eight Bases**




**Source:** Safety Program Development and Evaluation Technique reports from Borden, Cold Lake, Edmonton, Esquimalt, Gagetown, Halifax, Montreal and Trenton, 1993–1998

Forty-five percent of personnel in our sample lacked training in interpreting information in the Workplace Hazardous Materials Information System.

Hazardous materials inventory systems need to include standard information.

**There is a lack of training in hazardous materials**

**13.51** The third component of WHMIS is training. We examined the training records of a sample of 454 personnel selected at random from the 6,238 employees that the 10 bases identified as having access to selected hazardous materials inventories (information on our sample selection and response rates can be found in the section **About the Audit**). Since these individuals have access to hazardous materials, we expected that they would all have received training in interpreting WHMIS information. Both the Canada Labour Code for civilian employees and departmental policy for military personnel require that records of training be kept.

**13.52** The departmental records available indicate that 205 of the employees in our sample, or 45 percent, did not have any WHMIS training. This compares with the 1993 internal audit, which found that 42 percent of a sample of 1,783 personnel had not received training.

**13.53** Of the 249 workers in our sample who had received training, 28 had no record of it on their files. We found the information in other sources, such as safety officers' databases.

**13.54** We also found poor record keeping on specific training in packaging, storage and handling, and transportation of hazardous materials. These courses are required only for personnel who work extensively with hazardous materials, such as supply technicians. A certificate is issued to each trained worker and it must be renewed every one to three years, depending on the qualification. Expired certificates must be kept on file for at least two years. Of the 32 workers in our sample who required some type of training in the packaging, storage and handling or transportation of dangerous goods, only 21 had a current recertification. Seven had been employed for several years before they received their first training. Few certificates, current or expired, were kept on file.

**13.55** Appropriate and up-to-date records of training in hazardous materials are important because, first, they are required by law and by the Department's policy. Second, they also ensure that training can be delivered efficiently: personnel could be overtrained or undertrained if no records exist to show when their training is to be updated. This is particularly important in an organization like National Defence, with a significant proportion of personnel moving frequently from one job to another.

**Inventory lists are inaccurate and incomplete**

**13.56** Availability of accurate, complete and informative inventory lists was another area where frequent problems were identified by departmental audits and inspections, the 1993 internal audit, and our three base audits. At Halifax and Gagetown we found that inventory lists were not available at all locations where hazardous materials were stored. Where they were available, they were often out-of-date and did not accurately reflect the current inventory of hazardous materials — a problem also observed at Cold Lake. Across the 10 bases in our sample, departmental audits in 1998 noted 21 instances of missing, incomplete or outdated inventory lists of hazardous materials or hazardous waste.

**13.57** We requested copies of all inventory lists of hazardous materials at the 10 bases we examined. In spite of the fact that the Department's hazardous materials safety manual provides clear guidance and examples showing how to prepare inventory lists, there was little uniformity in the documents we received. They ranged from handwritten lists of chemical products, with incomplete identification and no indication of quantities, to computerized base-wide

inventories with detailed product information, container sizes, quantities and storage limits, locations, points of contact and availability of MSDS.

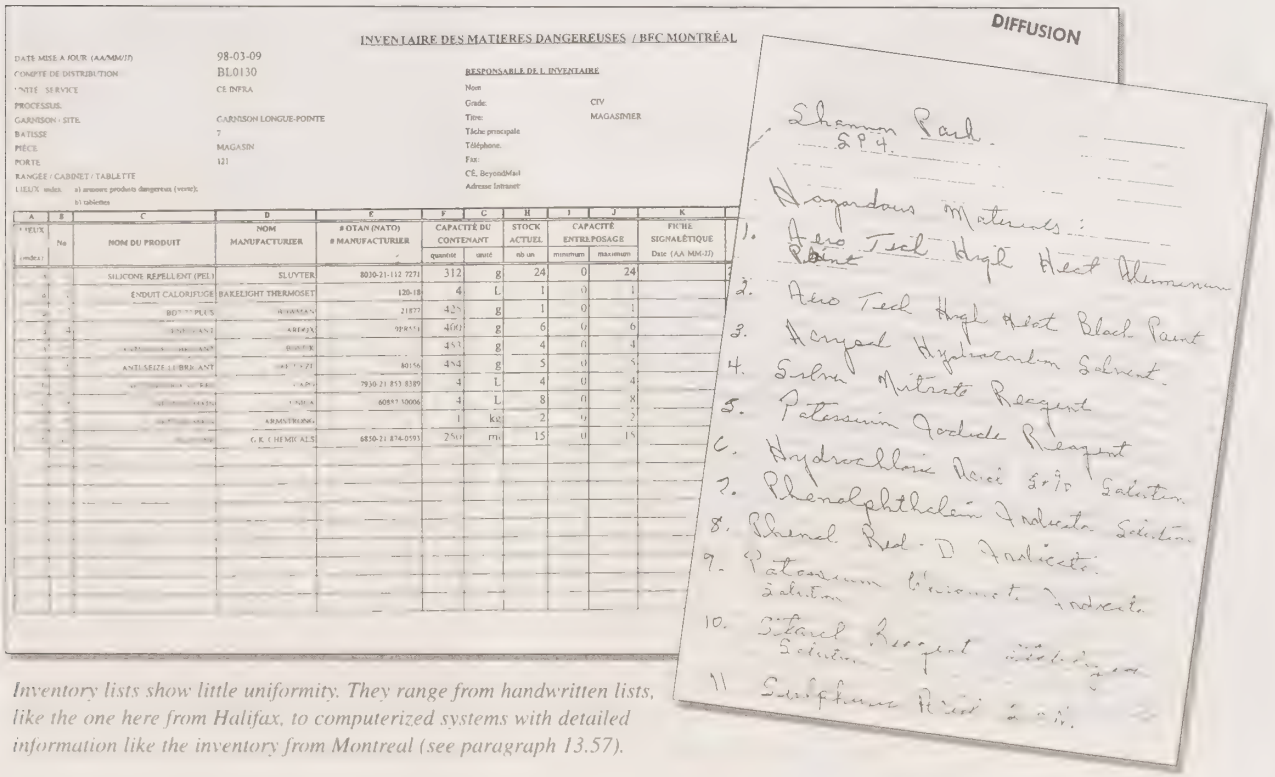
**13.58** Again, information systems technology, including commercially available database applications, would seem to offer a solution. This has been recognized at National Defence headquarters and at three of the bases in our sample; however, each has developed its own system. This has resulted in duplication of effort and wide variations in the type of information available.

**13.59 The Department should ensure that hazardous materials inventory systems are implemented and that they contain standard information.**

***Department's response:*** *The Department will define and issue minimum information requirements to be included in Base- and Wing-level hazardous materials inventory systems.*

**13.60** Responses we obtained on our hazardous products sample also revealed that inventory lists were not up-to-date. A total of 17 percent of items on which we received a response could not be found, had never been used by the unit, or were no longer used. In a number of cases, units reported having disposed of the product once our request had alerted them to the fact that they had it in inventory.

**13.61** We noted that many of the locally procured products were purchased more than one year ago. In several cases, we found more of the product in inventory than had been purchased; in other cases, the full amount purchased was still in inventory more than one year later. Both circumstances suggest that material had been purchased unnecessarily or in excessive quantities.



INVENTAIRE DES MATIERES DANGEREUSES / BFC MONTRÉAL

DATE MISE À JOUR (AA/MM/JJ): 98-03-09
COMPTE DE DISTRIBUTION: BL0130
UNITÉ SERVICE: CE INFRA
PROCESSUS:
GARNISON / SITE: CARNISON LONGUE-POINTE
BATISSE: 7
PIÈCE: MAGASIN
PORTE: 121
RANGÉE / CABINET / TABLETTE
LIEUX index: a) armoires produits dangereux (verte); b) tablettes

RESPONSABLE DE L'INVENTAIRE
Nom
Grade: CIV
Titre: MAGASINIER
Tâche principale
Téléphone:
Fax:
CE, BeyondMail
Adresse Intranet:

| A | B | C | D | E | F | G | H | I | J | K |
|---|---|---|---|---|---|---|---|---|---|---|
| LIEUX (index) | No | NOM DU PRODUIT | NOM MANUFACTURIER | # OTAN (NATO) # MANUFACTURIER | CAPACITÉ DU CONTENANT quantité | unité | STOCK ACTUEL nb un | CAPACITÉ ENTREPOSAGE minimum | maximum | FICHE SIGNALÉTIQUE Date (AA MM-JJ) |
| | | SILICONE REPELLENT (PEL) | SLUYTER | 8030-21-112 7271 | 312 | g | 24 | 0 | 24 | |
| | | ENDUIT CALORIFUGE | BAKELIGHT THERMOSET | 120-18 | 4 | L | 1 | 0 | 1 | |
| | | [illegible] PLUS | [illegible] | 21877 | 425 | g | 1 | 0 | 1 | |
| | | [illegible] | ARDROX | 9P851 | 400 | g | 6 | 0 | 6 | |
| | | [illegible] | [illegible] | | 454 | g | 4 | 0 | 4 | |
| | | ANTI-SEIZE LUBRICANT | [illegible] | 80156 | 454 | g | 5 | 0 | 5 | |
| | | [illegible] | [illegible] | 7930-21 853 8389 | 4 | L | 4 | 0 | 4 | |
| | | [illegible] | [illegible] | 6095? 50006 | 4 | L | 8 | 0 | 8 | |
| | | [illegible] | ARMSTRONG | | 1 | kg | 2 | 0 | 2 | |
| | | [illegible] | G.K. CHEMICALS | 6850-21 874-0593 | 250 | ml | 15 | 0 | 15 | |

DIFFUSION

Shannon Park
594

Hazardous Materials:

1. Aero Tech Engl Point Heat Aluminum
2. Aero Tech Engl Heat Black Paint
3. Acrysol Hydrocarbon Solvent
4. Silver Nitrate Reagent
5. Potassium Iodide Reagent
6. Hydrochloric Acid 5% Solution
7. Phenolphthalein Indicator Solution
8. Phenol Red - D Indicator
9. Potassium Dichromate Indicator Solution
10. Starch Reagent Solution
11. Sulphuric Acid 2 N

*Inventory lists show little uniformity. They range from handwritten lists, like the one here from Halifax, to computerized systems with detailed information like the inventory from Montreal (see paragraph 13.57).*

**Storage practices are deficient**

**13.62** At many bases, storage facilities do not meet legal and policy requirements. Departmental and external audits and inspections in 1998 found a total of 162 instances of non-compliance with storage requirements, with at least some instances at all 10 bases. At the three bases we audited, we observed the following non-compliance:

- many flammable storage cabinets at Cold Lake and Gagetown are metal office lockers, rather than regulation fire-resistant cabinets with containment for spills and proper ventilation;
- storage and handling areas at Cold Lake and Gagetown are not protected against leaks or spills, whether by secondary containment or paving and sealing to prevent seepage into the ground;
- incompatible products are stored together and compatibility information is missing at Cold Lake, Gagetown and Halifax; and
- storage areas are not properly marked with signs or placards at Cold Lake, Gagetown and Halifax.

**Respiratory protection programs are not fully implemented**

**13.63** The use of hazardous materials at National Defence facilities generates several types of potentially contaminated air emissions. While all bases we audited have assessed work areas for airborne contaminants, we observed these improper respiratory protection practices:

- paint being mixed in unventilated rooms at Cold Lake and Halifax;
- personnel using inappropriate respiratory equipment at the hazardous waste area at Halifax; and
- incomplete testing of the fit of respirators at the Bedford Ammunition Depot, Borden schools, Esquimalt, Gagetown and Montreal.

## Monitoring of Continuing Emissions

**Outdoor air emissions are not adequately monitored**

**13.64** Emissions of hazardous materials can contaminate the air outdoors. Sources of such emissions at Canadian Forces bases include:

- the burning of fuels in heating systems and vehicles that can emit large volumes of pollutants, including those that contribute to climate change;
- paint spray booths operating with forced-air ventilation that can result in the release of toxic chemicals, particularly if filter systems are not properly maintained; and
- poor storage practices, including open containers of hazardous material.

**13.65** Federal guidelines govern opacity, sulphur dioxide and particulate levels in emissions from boilers. Of the 10 bases in our sample, Edmonton and Wainwright do not have central heating plants. Of the remainder, only Cold Lake, Halifax and Gagetown monitor for some of the pollutants whose emissions are limited by the federal guidelines. None monitor for all three of the contaminants on which limits are set.

**13.66** The provinces set limits on the concentration of pollutants in the air, and provincial laws require that approvals be obtained for all sources likely to affect ambient (surrounding) air quality. The approvals list on a case-by-case basis the monitoring or other action required to ensure that the concentration limits are not exceeded. Because federal facilities are not subject to provincial laws, National Defence does not apply for provincial permits. Nonetheless, Cold Lake, Trenton, Halifax, Bagotville and Montreal monitor for at least one pollutant whose

concentration is limited by provincial law. No base indicated that it monitored paint booth emissions, though Borden did indicate that contractors regularly verify the efficiency of its paint booths.

**Sewage treatment program meets standards for biological contamination at low cost**

**13.67** Hazardous materials can contaminate water leaving National

*(See paragraph 13.62)*



*Waste oil pan being emptied into a floor drain in a garage at Gagetown.*



*Dirty and deteriorating dry filters inside a paint booth at Gagetown.*



*Unlabelled pails of waste stored outside of the heating plant at Halifax.*



*Drums of oil, solvent and WD10 stored on grass with no secondary containment, alongside a garage at Cold Lake.*

Defence facilities through storm sewers and sanitary sewers. Possible sources include:

- run-off from vehicle or aircraft maintenance and storage areas;
- discharges resulting from ship maintenance;
- run-off and discharges from construction sites and fabrication shops; and
- spills.

**13.68** The Department gives some recognition of contaminated emissions in the pollution prevention section of its sustainable development strategy. The strategy established a target requiring sewage treatment plants and storm sewer discharges to be compatible with applicable standards, including provincial and municipal standards, by 2000. No commitments were made for untreated discharge into municipal sanitary sewers.

Changes in sewage treatment plant operations have met water discharge standards at a low cost.

**13.69** To meet the target for sewage treatment plants, the Department is committed to completing a Sewage Treatment Plant Optimization Program at its six plants by 2001. Under the program, each plant's physical design and operating procedures are analyzed during an initial comprehensive performance evaluation. Then, with the assistance of sewage treatment experts, the design and operating procedures are changed during a comprehensive technical assistance phase to make the existing plant work at optimum performance.

**13.70** The initial evaluation by National Defence of all six departmental sewage treatment plants found that they did not comply with the applicable legislation or departmental policy on effluent quality. Most often the causes of non-compliance were not the design of the facility but its administration and operation. At the time of our audit, changes proposed during the comprehensive technical assistance (CTA) phase were completed at two plants, Borden and Trenton, at a cost of approximately $350,000 each. By the end of the CTA, both met the applicable standards. Earlier studies by outside consultants had suggested that Borden would have to build an entirely new facility at an estimated cost of $7.6 million and Trenton would have to spend an estimated $2.8 million on upgrades to bring the plants into compliance. The optimization program appears to deliver significant savings over these earlier cost estimates.

**Liquid effluent is not monitored for all contaminants that local standards limit**

**13.71** In spite of this success, however, effluent from departmental sewage treatment plants is monitored only for the contaminants (mainly biological) that the plants are designed to remove, and not for industrial contaminants such as solvents or trace metals (see Exhibit 13.6).

**13.72** Sewage that leaves National Defence facilities for treatment at municipal sewage treatment plants is not subjected to regular testing for all contaminants limited by applicable standards. Of the six bases we examined that discharge sewage to municipal facilities, two (Edmonton and Wainwright) do no testing. Montreal has conducted one-time risk assessment tests, which failed to meet applicable standards in several respects. Esquimalt and Halifax regularly test sewage effluent from areas they consider to be high risks. Only Bagotville regularly tests its sewage effluent, but not for all contaminants on which limits are set (see Exhibit 13.7). Municipal laws, with which the Department does not have to comply, generally set limits on a wider range of contaminants. Of the bases in our sample that do monitor their effluent, all monitor for contaminants beyond those included in the federal guidelines. However, few of them monitor for all contaminants on which limits are set in local laws.

**13.73** As is the norm elsewhere, storm sewers at departmental facilities are generally not treated. At the time of our audit, effluent leaving National Defence facilities in storm sewers was subjected to varying degrees of testing (see Exhibit 13.8). In addition to federal and municipal laws and guidelines, the Air force has an effluent monitoring guide that requires its facilities to test their storm sewer effluent. The three Air force facilities we audited monitor storm sewers regularly, though not for all contaminants limited by applicable standards. Bagotville and Cold Lake have found that their effluent regularly fails to meet the standards set out by the Air Command Effluent Monitoring Manual or other applicable laws and guidelines. Of the other commands, Borden, Edmonton and Wainwright do not test storm sewers at all. Montreal and Gagetown each recently conducted a one-time risk assessment study and failed to meet applicable standards for several pollutants. Esquimalt and Halifax test their storm sewer effluent regularly, but Esquimalt does not test for all regulated contaminants.

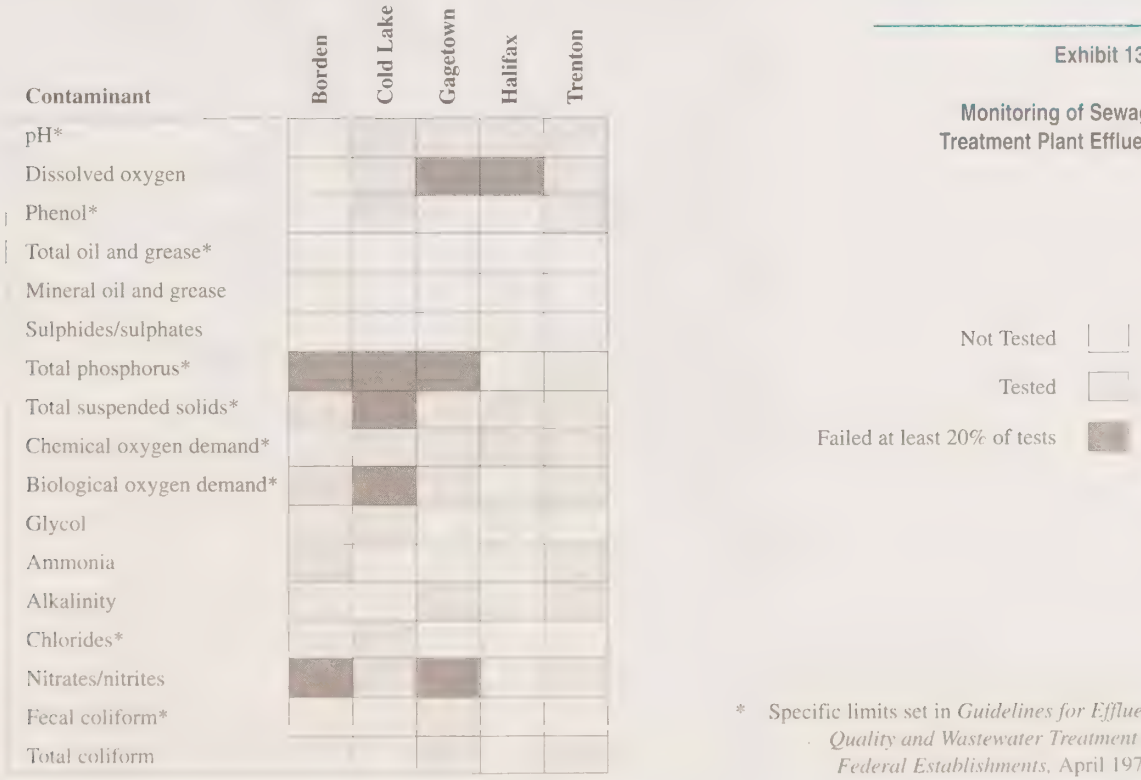
**13.74** Base staff at Wainwright and consultants engaged by Edmonton and Gagetown have recommended that the regular testing of storm or sanitary sewer effluent be increased. This is both to ensure compliance with applicable laws and policies and, where there is a non-compliant emission, to identify the source.

**13.75 National Defence should conduct an assessment of all liquid effluent and air emissions at its bases to ensure that the environment is not being contaminated by hazardous materials. The assessment should be repeated periodically, particularly when there are major changes to the base configuration or activities.**

***Department's response:*** *The Department's Sustainable Development Strategy includes commitments for storm water and sanitary effluents. The actions associated*

Exhibit 13.6

**Monitoring of Sewage Treatment Plant Effluent**

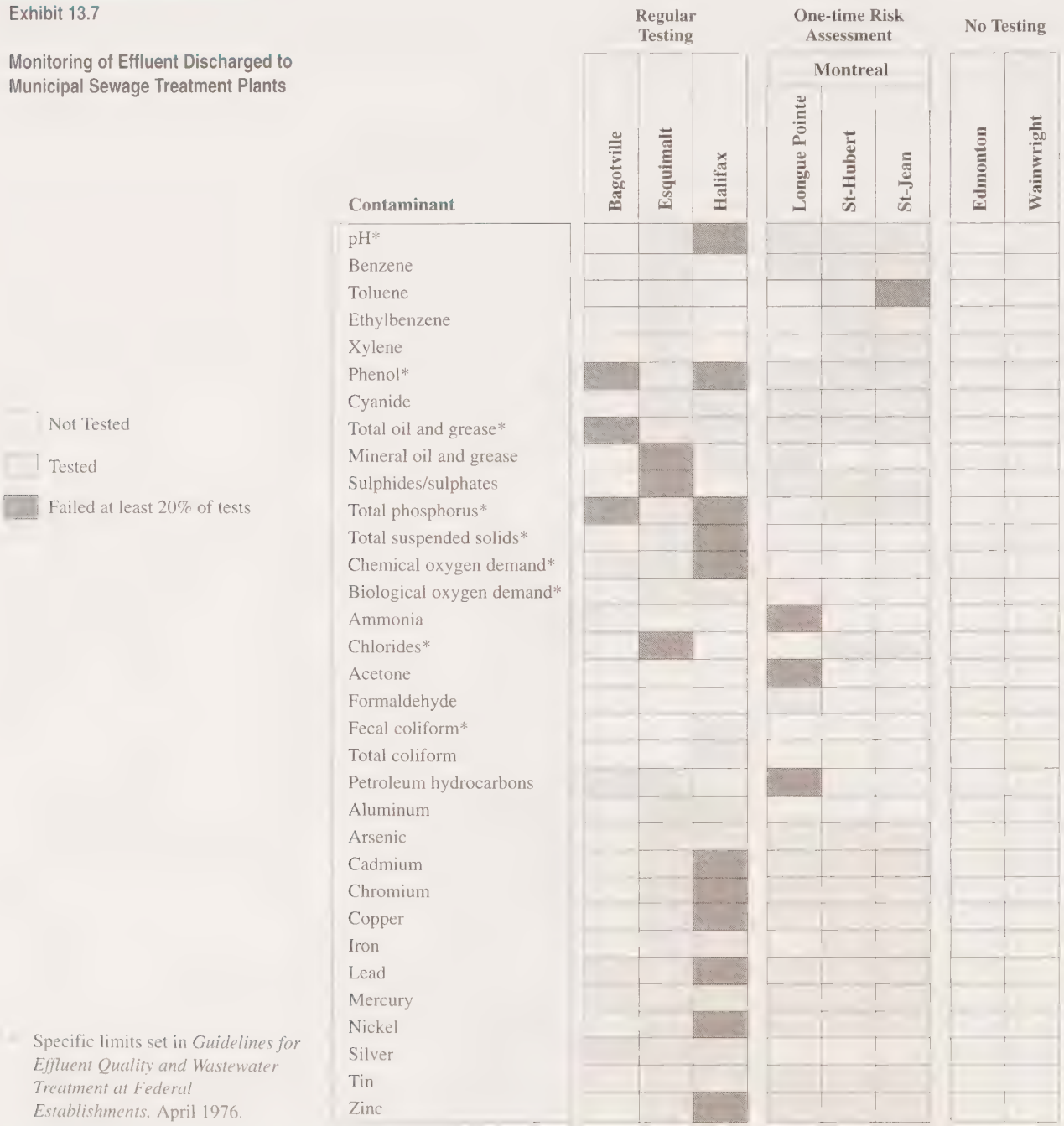



* Specific limits set in *Guidelines for Effluent Quality and Wastewater Treatment at Federal Establishments*, April 1976.

*with these commitments will be reviewed and revised as required. Similar action plans will be developed for air emissions. The Department undertakes to review and revise its existing effluent monitoring protocols as required and to develop monitoring protocols for air emissions that conform to current federal regulations and guidelines. The Department will continue to participate in the interdepartmental sub-working group that is addressing effluent discharges from federal facilities. This sub-working group was established under the Federal Committee on*

Exhibit 13.7

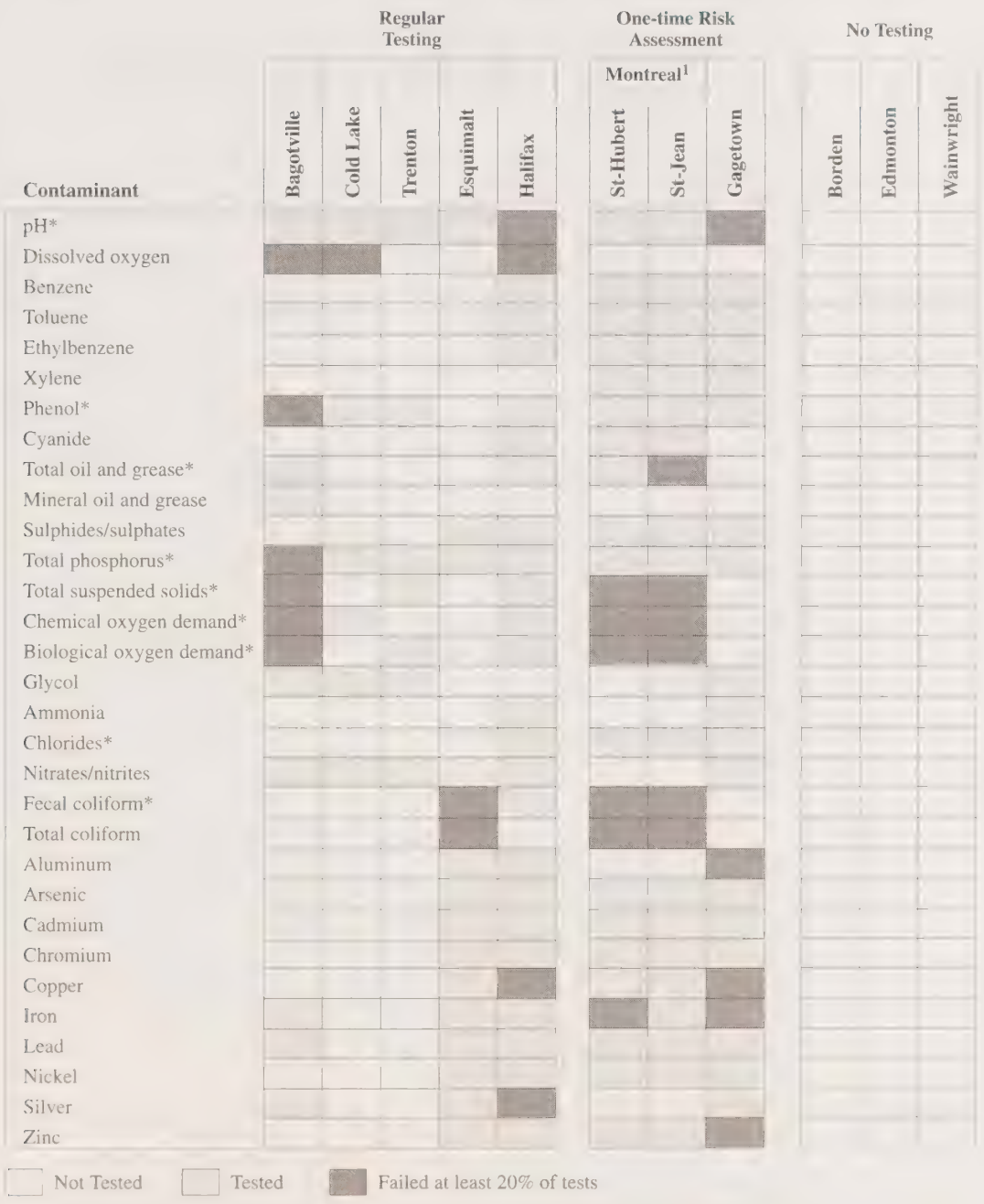
**Monitoring of Effluent Discharged to Municipal Sewage Treatment Plants**




* Specific limits set in *Guidelines for Effluent Quality and Wastewater Treatment at Federal Establishments*, April 1976.

Exhibit 13.8

Monitoring of Storm Sewer Effluent




[1] These facilities have done only a one-time risk assessment study, in the fall of 1998. At St-Jean, the high counts for fecal coliform, total coliform, biological oxygen demand and total suspended solids may originate from the surrounding communities.

* Specific limits set in *Guidelines for Effluent Quality and Wastewater Treatment at Federal Establishments*, April 1976.

*Environmental Management Systems (FCEMS), which has a mandate to identify and resolve environmental issues common to all federal departments. The Department will make a formal request to the FCEMS to investigate whether a gap exists with respect to air emissions and whether this gap should be addressed by FCEMS at the national level.*

**National Defence participates in national emission reporting programs**

**13.76** The Department participates in national programs that require the reporting of hazardous material emissions into the environment. The National Pollutant Release Inventory (NPRI) is a legal requirement under the *Canadian Environmental Protection Act*; it requires that use or release of more than 10 tonnes be reported for 176 specified chemicals. Of these chemicals only one, ethylene glycol for aircraft de-icing, is used by National Defence in quantities that may meet the reporting criterion, depending on annual usage. Releases have been reported in recent years at Goose Bay and Trenton, and at Greenwood in 1994.

**13.77** Accelerated Reduction/Elimination of Toxics is a voluntary program under which emissions of 117 toxic substances are to be reported and reduced. Because the Department's procurement and use of hazardous materials is decentralized, National Defence is not able to report on uses or emissions. Instead, it has reduced the range of products it uses that contain the targeted toxic substances. By October 1998, the Department had eliminated from use more than 70 percent of the nearly 700 NATO stock number items it had identified as containing the substances.

**13.78** National Defence has also committed to reducing its emissions of dichloromethane, used in stripping aircraft paint. The commitment is made under the Strategic Options Process that entails developing mechanisms ("options") for reducing or eliminating chemicals declared toxic under the *Canadian Environmental Protection Act*. Air force wings have been directed to implement the dichloromethane management plan.

## Compliance Management at National Headquarters

**Managing for compliance reduces risks**

**13.79** Given the persistent compliance problems we observed, we looked at the management systems intended to ensure that the Department meets the legal and policy requirements governing hazardous materials. A management system is a process used to provide an organization with reasonable assurance that its work is conducted in accordance with applicable regulatory requirements, professional standards and the organization's own policies and procedures.

**13.80** In the environmental field, the International Organization for Standardization's (ISO) 14000 series is emerging as the voluntary standard for management systems. National Defence has made a commitment to implement environmental management systems that are compatible with this standard.

**13.81** We used selected elements from the ISO 14004 standards of Environmental Management Systems Principles (see Appendix) to evaluate the systems the Department uses to ensure compliance with the legal and policy requirements governing hazardous materials. We did not audit the entire environmental management system at any level in the Department.

**National policy has some gaps**

**13.82** In December 1997 the Department's sustainable development strategy identified hazardous materials as one of its five key issues. In 1998, the Department reviewed its policy on hazardous materials management and reissued it in the form of a Defence

Administrative Order and Directive (DAOD). However, DAODs for ammunition management and nuclear safety regulation and control have remained in draft form for over a year and a half.

**13.83** The DAOD on management of hazardous materials commits the Department to reduce their use, avoid or minimize the creation of pollutants and wastes, and limit storage to the quantities needed for operational requirements. Similarly, the draft DAOD on nuclear safety commits the Department to protect the environment and minimize human exposure to ionizing radiation. More broadly, several statements in the sustainable development strategy, and particularly the targets established for hazardous materials, commit the Department to continually reduce the amounts of material used and their potential for entering the environment. However, as explained in paragraph 13.26, the Department's policy statements on hazardous materials management include a commitment to meet or exceed applicable federal legal and policy requirements, but be compatible with provincial, municipal and international requirements only "where appropriate".

**13.84** As well, the DAOD on hazardous materials management does not define the responsibility and accountability of every organization involved. It does define the responsibilities of various line authorities, including users and their supervisors, as well as material technical authorities and hazardous material control authorities. However, unlike the draft DAODs on ammunition and radioactive material, it does not define the responsibilities of functional experts at headquarters, such as the Director Supply or Director General Environment. Lists of responsibilities can be found in some of the hazardous materials manuals, but they are not necessarily authoritative, complete, or up-to-date.

**13.85 National Defence should define the circumstances in which it will apply provincial and municipal laws relevant to hazardous materials management, and should specify the standards that it accepts.**

***Department's response:*** *In accordance with the environmental management system adopted by National Defence, the Department is required to review environmental legislative and regulatory requirements associated with site- and event-specific activities. Based on these assessments, Bases and Wings will update their environmental management systems to reflect the provincial and municipal regulations and policies that are applicable to their location.*

**13.86 The responsibility and accountability of National Defence headquarters organizations involved in the management of hazardous materials should be defined, documented and kept up-to-date.**

***Department's response:*** *The Department will review and revise its internal policy on hazardous materials management to include the responsibilities and the accountability of functional experts involved in the management of hazardous materials.*

Hazardous materials management policy does not define the responsibilities of headquarters experts.

**National plans, procedures and objectives met our expectations**

**13.87** The 1997 sustainable development strategy meets the ISO 14004 criteria that require an initial national environmental review, an action plan to carry out policy, and established objectives and targets.

**13.88** In his May 1998 Report to the House of Commons, the Commissioner of the Environment and Sustainable Development reviewed the sustainable development strategies tabled on behalf of 28 federal organizations in December 1997. The review essentially asked whether the sustainable development strategies included all the

components required by the *Auditor General Act* and *A Guide to Green Government*. The Commissioner concluded that in preparing its strategy, National Defence did what it had been asked to do.

**13.89** In accordance with the ISO requirement to define, document and update operational processes and procedures, a series of top-level departmental manuals provide general guidance and some additional policy requirements in the following areas:

- hazardous materials procurement, storage, packaging, waste disposal, PCB handling and spill response;
- hazardous materials safety, shipping and transportation;
- explosives safety, handling and storage; and
- nuclear safety, use, handling, storage, transportation, disposal, decommissioning and emergency response.

**13.90** Most of these manuals were recently updated or reissued. As well, headquarters produces dozens of technical publications that define operational processes and procedures for handling specific hazardous materials in the course of performing specific tasks.

**National policies are not effectively communicated to the field**

**13.91** We found evidence that base and unit personnel in some cases were not aware of the existence or relevance of the national publications; in other cases they were not using the latest versions, even several months after publication. For example, when the 224 people who responded to our hazardous products sample questionnaire were asked to identify policy and procedure documents on acquiring hazardous chemical products, only 35 — 16 percent — mentioned the hazardous materials DAOD, manual, or equivalent base or unit procedure. Another 29 identified other supply manuals or procedures that contain elements of the hazardous materials acquisition policy and procedures. We also observed several instances where base or unit documents on hazardous materials management that were prepared in late 1998 referred to national policy documents that had been superseded at the beginning of the year.

**National hazardous materials audit programs are not complete or consistent**

**13.92** Each of the national headquarters of the Maritime, Land and Air forces operates an environmental audit program. The Land program aims to audit every base at least every three years. The Air force's aim is to audit every wing at least every two years. Because the Maritime force operates only two bases, its environmental audit program aims to cover all units every three years. The audit programs are based on detailed checklists or audit protocols that include sections on hazardous materials and on related issues such as management systems, air emissions, wastewater or stormwater emissions, petroleum products and used oil.

**13.93** Since the Land and the Maritime environmental audit programs were less than three years old at the time of our audit, not all bases had been audited yet. However, their audit cycles were on schedule and all audits planned to date had been carried out. The initial audit plan for the Air force was incomplete since only 7 of the 11 wings would be audited between 1997, when the revised audit protocol was issued, and 1999. The plan has since been revised to visit all wings between 1998 and 2000.

**13.94** The inspection program for licensed radioactive material facilities requires biennial inspections by the Director General Nuclear Safety. Inspection programs for ammunition facilities require annual inspections either by the Director Ammunition Program Management or a qualified explosives

inspector from the Chiefs of Staff. Checklists are used for these inspections.

**13.95** Both the ammunition and the radioactive material inspection programs have experienced problems due to a lack of resources. In 1998, ammunition storage was not inspected at 8 out of 40 facilities. Additional inspectors have since been hired in an effort to close the gap. The radioactive material inspection process faces greater difficulty. In 1997 and 1998, only 65 percent of the 425 licensed units were inspected. Moreover, the 1999–2004 Business Plan for the Infrastructure and Environment group in National Defence headquarters has identified a long-term inability to oversee the radiation safety program and nuclear safety compliance. Additional resources have been requested to close this gap.

**13.96** We did not audit the quality of the audit protocols or the audit and inspection reports. However, we did note that the protocols are all different. As a result, it is not possible to consolidate the audit and inspection findings to produce meaningful performance information on the Department as a whole.

**13.97** Moreover, there are significant gaps in the audit programs. The headquarters groups responsible for personnel and materiel management command several field units, including Canadian Forces Base Borden, Canadian Forces Supply Depots at Edmonton and Montreal, and 202 Workshop in Montreal. None of these facilities is subjected to regular external environmental audit that would include assessing hazardous materials compliance.

### Performance measurement could improve compliance

**13.98** Weaknesses in the audit and inspection programs are compounded by the fact that the Department's sustainable development strategy contains limited targets and performance measures for hazardous materials compliance. While the strategy met the expectations of the Commissioner of the Environment by including targets that set detailed, clear, measurable and time-bound performance requirements, the Commissioner's review did not look at whether the targets and measures were complete.

**13.99** The strategy's compliance targets cover only fuel storage tanks, sewage treatment plant discharges, and storm sewer effluent. As we have noted, our audit revealed compliance problems covering many more aspects of hazardous materials management at National Defence facilities. As the Commissioner noted in his 1998 Report, "Environmental performance that is measured, managed and rewarded continually improves." We believe that establishing performance measures and targets for a broader range of compliance requirements and reporting on them annually to Parliament would provide an incentive to improve the current state of compliance.

**There are significant gaps in headquarters audit and inspection programs.**

**13.100** Since publication of the Department's sustainable development strategy, the interdepartmental Committee on Performance Measurement for Sustainable Government Operations developed draft indicators for government-wide reporting. The Committee, which includes representatives from National Defence, was formed in 1997 to focus on how to build environmental performance reporting systems. Two of the four hazardous materials performance indicators proposed by the Committee focus on compliance (see Exhibit 13.9). Using performance indicators to measure compliance for more aspects of hazardous materials management in the next revision of the Department's sustainable development strategy could therefore contribute to the development of government-wide reporting. As the Commissioner of the Environment has suggested, using consistent measures could allow departments to build on each other's experience and information, and to

realize economies of scale in developing information systems.

**13.101** Measures of compliance might also be an effective way to incorporate radioactive materials and ammunition into the hazardous materials component of National Defence's sustainable development strategy. The Department currently holds an inventory of ammunition worth more than $3.5 billion, and over 130,000 items of equipment with a total value of more than $200 million that contain controlled amounts of radioactive material. We believe that inventories as large and as hazardous as these cannot be excluded from the sustainable development strategy's performance reporting on hazardous materials. Because ammunition and radioactive materials are operational necessities, environmental performance measures for them need to demonstrate continual improvement in their safe management rather than reductions in their use. Reporting in these areas should be able to make use of the existing facility inspection programs and analyses, as well as existing processes for accident and incident reporting and analysis.

**13.102 In the revision of its sustainable development strategy due in 2000, National Defence should provide performance indicators for hazardous materials compliance. The indicators should measure continual improvement toward a target of full compliance, contribute to government-wide reporting, and include ammunition and radioactive material.**

***Department's response:*** *In the revision of its Sustainable Development Strategy due in 2000, the Department will include appropriate performance indicators for hazardous materials by:*

- *establishing a departmental definition of the term "full compliance";*
- *reviewing and updating, as required, the performance indicators for the hazardous materials targets included in the Department's current Sustainable Development Strategy;*
- *continuing to participate in the interdepartmental process that is developing government-wide performance indicators. The Department will include government-wide performance targets in future Sustainable Development Strategies where it is appropriate to do so; and*
- *establishing appropriate performance indicators for ammunition and radioactive materials.*

**13.103 To assist in reporting on compliance, headquarters audit and inspection programs should be consistent across the Department, should cover all departmental facilities and units, and should provide for inspecting all facilities and units at least every three years.**

***Department's response:*** *The Department will review and revise current audit and inspection programs, as required, so that protocols used at all levels include core requirements that must be examined during audits and inspections. The Department will also establish guidelines for the frequency of these audits and inspections of its facilities and units.*

Exhibit 13.9

**Proposed Environmental Performance Indicators for Hazardous Materials in Sustainable Government Operations**

- number of storage facilities meeting regulations, policies and procedures
- amount of hazardous waste sent to disposal (by weight/class), timeframe will vary
- number of on-site recycling, treatment, destruction and disposal facilities meeting regulations, policies and procedures
- amount of hazardous waste sent to on-site recycling, treatment, destruction and disposal

**Source:** Federal Committee on Environmental Management Systems, Committee on Performance Measurement for Sustainable Government Operations

**Slow implementation of performance measures for sustainable development**

**13.104** We examined progress to date in reporting against the targets and performance measures for hazardous materials included in the Department's sustainable development strategy. The strategy defined six targets and 13 performance measures; however, we did not audit the target for contaminated sites or the four related performance measures. The Department's 1998 Performance Report provided information on only one of the remaining targets, concerning fuel storage tanks, but not on the performance measure associated with it.

**13.105** Given the short period of time between the tabling of the strategy in December 1997 and the March 1998 cut-off date for the first progress reports, we recognize that the Department might not have been able to report on all its targets. In particular, in December 1997 there were no precise definitions and information mechanisms for the targets of reducing the use of high-risk hazardous materials and showing downward trends in reportable spills and hazardous waste sent for disposal. Since then, the Department has defined terms and developed reporting mechanisms. However, because existing data on hazardous waste and reportable spills are not consistent, baselines will not be established until the new system contains data for a full year (March 2000). Information for a second year will be required before the system can provide the first indication of whether the downward trend targets are being met. Therefore, meaningful information on progress toward two of the hazardous materials targets will not be available before the Department's fall 2001 Performance Report.

**Year 2000 certification of computer systems for hazardous materials is on target**

**13.106** Ensuring that its mission-critical computer systems can accept dates from the year 2000 onward is a priority for National Defence. As a result, it has established a process to confirm the readiness of those systems. We reviewed the Department's status reports on 168 systems that play a role in hazardous materials management, including national management systems, base-level networks, systems that control fuel farms, sewage treatment plants and heating systems, and computerized munitions. As of mid-May 1999, the Department had certified 54 systems as compliant. Plans were in place and on schedule to certify the remaining 114 systems by the end of September, though 24 had missed some deadlines. The Department has mechanisms in place to verify a sample of systems in order to ensure that procedures are followed and technical requirements are met. Verification reports had been completed on nine of the systems we selected. Significant problems were found with the procedures followed for two systems, but they have been rectified.

## Compliance Management at Bases

**Base-level managing for compliance could be improved**

**13.107** We reviewed the management systems at 10 Canadian Forces bases against the selected criteria of ISO 14004 (see Appendix). Management system elements were assessed at both the base and unit levels. The results are presented in Exhibit 13.10.

**13.108** Very few of the compliance management components fully met the ISO 14004 criteria. The main exception was the requirement for an initial

Exhibit 13.10

Assessment of Hazardous Materials Management Systems at 10 Bases

| ISO 14004 – Environmental Management Systems (EMS) Criteria | Bagotville | Edmonton | Cold Lake | Trenton | Borden | Wainwright | Montreal | Gagetown | Esquimalt | Halifax |
|---|---|---|---|---|---|---|---|---|---|---|
| **1. Commitment and Policy**<br>**An organization should define its environmental policy and ensure commitment to its EMS.** | | | | | | | | | | |
| • Does the policy embody commitments such as continual improvement; monitoring; meeting or exceeding legal requirements? | ○ | ○ | ○ | ● | ● | ● | ○ | ● | ● | ● |
| • Has an initial environmental review been conducted? | ● | ● | ● | ● | ● | ● | ● | ◐ | ● | ● |
| **2. Planning**<br>**An organization should formulate a plan to fulfil its environmental policy.** | | | | | | | | | | |
| • Does the plan address legal and policy requirements? | ◐ | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| • Does the plan establish objectives and targets? | ◐ | ○ | ○ | ○ | ○ | ● | ● | ● | ● | ● |
| • Is a management program established to address objectives and targets; is the program reviewed, monitored and revised? | ◐ | ○ | ○ | ○ | ○ | ● | ○ | ● | ● | ● |
| **3. Implementation**<br>**For effective implementation, an organization should develop the capabilities and support mechanisms necessary to achieve its environmental policy, objectives and targets.** | | | | | | | | | | |
| • Are responsibility and accountability clearly defined? | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| • Are reports containing compliance evaluations and opportunities for improvement communicated to those responsible? | ● | ● | ● | ● | ● | ◐ | ● | ● | ● | ● |
| • Are operational processes and procedures defined, documented and updated? | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| **4. Measurement and Evaluation**<br>**An organization should measure, monitor and evaluate its environmental performance.** | | | | | | | | | | |
| • Does the organization measure and monitor ongoing performance against objectives and targets? | ○ | ○ | ○ | ○ | ○ | ○ | ● | ○ | ● | ● |
| • Does the organization evaluate compliance with legal and other requirements? | ● | ● | ● | ● | ● | ○ | ● | ● | ● | ● |
| • Does the organization document findings, and corrective and preventive actions taken? | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| • Is there a systematic follow-up to ensure the effectiveness of preventive actions taken? | ○ | ○ | ○ | ○ | ○ | ○ | ● | ○ | ○ | ● |
| • Are records (such as training activity, inspection activity, details of non-conformance) maintained and reviewed? | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| • Has the system been audited to determine if it conforms to planned arrangements and is properly implemented and maintained? | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ● |
| **5. Review and Improvement**<br>**An organization should review and continually improve its environmental management system, with the objective of improving its overall environmental performance.** | | | | | | | | | | |
| • Has the system been reviewed to ensure its continuing suitability and effectiveness in order to identify opportunities for improvement? | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ● |
| • Does the system embody continual improvement by determining root causes of non-conformance/deficiencies and developing plans to address root causes? | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | | ● |

● Fully met ◐ Partially met ○ Not met

**Source:** Office of the Auditor General

environmental review, which was met in most cases by the environmental baseline studies conducted at all bases starting in the mid-1980s. Department-wide, some two thirds of the recommendations from those studies were related to hazardous materials.

**13.109** The key weakness in compliance management is the failure to regard it as a continual improvement feedback system. While most bases evaluate compliance to some degree, there are no established objectives and targets, and therefore no plan for achieving any.

**13.110** Bases have no performance measures for compliance. We have already noted that base-level audit and inspection programs are highly fragmentary. Moreover, the structure for compliance management is not reviewed to determine whether it is effective and to examine the root causes of problems. In these circumstances, it is not surprising that bases repeatedly display the same problems.

**13.111** Although difficult to measure, factors contributing to compliance management problems include the many pressures that the Department and its managers have faced in the last five or more years. Budgets have been cut and devolved, requiring managers to learn new skills. Units have moved; bases have been closed and others restructured, requiring that new procedures be established. Personnel levels have fallen, reducing the reservoir of functional expertise. Particularly at the unit level, the jobs of environment officer or hazardous materials co-ordinator are assigned as secondary duties, perhaps added to other secondary duties, while pay has been frozen for years at a stretch. In such an atmosphere, leadership is vitally important in setting goals, providing direction, and following up to ensure that the goals and direction are carried out.

**13.112** The potential impact of an effective compliance management system is indicated by the fact that, at the three bases we audited in more detail, we found that the more complete the system, the better the overall state of compliance. Better management systems will protect workers and the environment better.

**13.113** National Defence headquarters has begun to provide guidance to bases and units on developing ISO 14000-compatible environmental management systems. If successfully implemented, the systems should begin to address the many weaknesses in compliance management at the base level. However, no deadline has been established for implementing environmental management systems across the Department.

Compliance management is not implemented as a continual improvement feedback system.

**13.114 National Defence should ensure, as part of implementing environmental management systems, that bases and units establish performance measures for hazardous materials compliance that measure continual improvement toward a target of full compliance.**

***Department's response:*** *Departmental direction with respect to environmental management systems will be expanded to permit the measurement of continual improvement toward the Department's definition of "full compliance".*

The Department has not set deadlines for implementing environmental management systems.

**Some promising developments were noted**

**13.115** We noted (see Exhibit 13.10) that both Maritime bases in our sample (Esquimalt and Halifax) scored in the top half of the range of ISO 14004 results, while all three Air bases (Bagotville, Cold Lake and Trenton) were in the bottom half. Results for Land bases (Edmonton, Gagetown, Montreal and Wainwright) were mixed, while the Personnel Group base (Borden) was in the middle. There may be opportunities for the Maritime bases to share their better practices.

**13.116** Some of the bases we examined have combined the various functional

experts responsible for safety and the environment (and therefore also for hazardous materials) into a single office that reports directly to the base commander. In Montreal and Bagotville, this has resulted in the development of a consolidated base-level safety and environmental inspection process. All base functional experts (safety officer, environment officer, hazardous materials officer or co-ordinator, radiation safety officer, explosives safety officer, fire chief and preventative medicine technicians) inspect a unit at the same time, using checklists. All base units are subjected to this "multi-disciplinary" inspection once a year. The result is an annual "snapshot" of each unit's state of compliance. These snapshots are expected to be comparable across units and over time, thereby providing useful performance information.

**13.117 The Department should require the use of a consistent methodology for annual environmental audits and inspections at the base level. Implementing the methodology should involve all hazardous materials functional experts.**

***Department's response:*** *In the response to the recommendation at paragraph 13.103, the Department committed to establishing core requirements with respect to hazardous materials management that must be examined during audits and inspections programs at all levels. The Department will review and revise its methodology for audits and inspections of Bases and Wings as required so that functional experts participate in the audits and inspections. The Department will also provide guidance on the frequency of these audits and inspections at the Base and Wing level.*

**13.118** We noted another useful initiative at Halifax. Acquisition of hazardous materials has been restricted to Base Supply, except for a list of items considered to be low-risk. The approach at Halifax goes part way toward initiatives introduced in the United States armed forces to centralize hazardous materials management at the unit or base level. The essential features of the American programs are:

- a single point at the unit or base responsible for acquiring, storing and dispensing all hazardous materials and providing associated safety, health and environmental information;
- an authorization process that identifies who is permitted to obtain what products;
- tracking of materials issued to individuals, through bar-coding;
- requiring the return of empty or partially used containers before new ones are issued;
- reissue of unused or partially used material; and
- centralized disposal of hazardous waste.

**13.119** The American programs have reduced hazardous materials acquisition costs, waste disposal costs, shop stocks and chemical use. According to the UK National Audit Office, the Royal Air Force has introduced a simplified version of the American system that has resulted in reduced shop stocks and improved waste disposal practices.

**13.120 National Defence should conduct a formal assessment or trial of a centralized hazardous materials management system at the base or unit level, aimed at determining:**

- **the costs of implementing a centralized system;**
- **the optimal level of centralization, whether at the base, the unit or another level;**
- **the potential savings in acquisition and disposal costs; and**
- **the degree of potential improvement in compliance.**

***Department's response:*** *The Department commits in principle to conducting a formal assessment of a centralized hazardous materials management system incorporating the requirements outlined in the recommendation. As part of this assessment, the Department will also investigate the centralized hazardous materials management systems used by other militaries. Trials will be conducted on an as-required basis to validate or confirm these assessments.*

## Choosing Safer Products

**13.121** The most effective means to minimize the risks posed by hazardous materials is to minimize their use. This is also the most effective way to prevent pollution. The Department has recognized this in its directive on hazardous materials management and in its sustainable development strategy.

**13.122** The Department is participating in a number of voluntary programs to reduce its use of hazardous materials, including the Accelerated Reduction/Elimination of Toxics program and the Strategic Options Process. Its sustainable development strategy also includes a target of eliminating the use of specified high-risk hazardous materials.

**13.123** The Department's approach to these programs is to identify items with NATO stock numbers in the Canadian Forces Supply System that include the targeted chemicals. Headquarters staff then review the products to determine if they are still needed or if there are environmentally friendly substitutes available. Tools such as the Hazardous Material and Preferred Product Selector database have been developed to help base and unit personnel identify the most appropriate substitute for their needs.

**13.124** However, because procurement of many hazardous chemical products is decentralized, not all products used have NATO stock numbers. Approximately 10 percent or 400 of the chemical products in the Hi-Q information system, for example, do not have a stock number, a proportion that is likely to increase as more products are procured locally. Moreover, as a result of local procurement, headquarters may be unaware of the products used at the local level. The Department has recognized this problem, and the hazardous materials directive therefore makes it mandatory to use the materiel information management system for life cycle management of hazardous materials. However, it appears that many personnel are unaware of this requirement and rarely comply. Of the 607 items in our hazardous products sample, the personnel responsible for acquiring them confirmed that only 247, or 41 percent, were recorded in the system. Lack of information at headquarters may mean that products are not included in the lists to be assessed and eliminated or replaced.

**13.125 The Department should strengthen mechanisms for ensuring that headquarters is aware of hazardous products in use, and that users are aware of less hazardous substitutes that are available.**

***Department's response:*** *The Department has developed a process to replace products containing substances of concern with more environmentally friendly products, through its voluntary participation in Environment Canada's Accelerated Reduction/Elimination of Toxics program. This process requires that restrictions be placed on those products containing substances of concern where replacements are not possible, are not cost-effective or affect operational readiness. The Department will develop an appropriate communications strategy to inform departmental staff at all levels about the replacement products, including the products that they are replacing. The Department also commits to conducting annual reviews of the screening methodology that it uses to identify products containing substances of*

*concern. The screening methodology will be updated as required so those products posing the highest risk to workers and the environment will be the first priority for replacement.*

## Conclusion

There are widespread, frequent and recurring instances of non-compliance with legal and policy requirements governing hazardous materials.

**13.126** Departmental policies, plans and procedures at the national level indicate that National Defence is aware of the legal framework and best practices for hazardous materials management. At the base and unit levels, however, implementation has been uneven. As a result, there are widespread, frequent and recurring instances of non-compliance with the legal and policy requirements. Non-compliance puts workers and the environment at increased risk. Nonetheless, we did find instances of efforts to improve the management of hazardous materials in the Department; and injury trends, particularly among civilian employees, have shown marked improvement since 1993.

**13.127** A major factor in the lack of compliance is that the existing management systems to ensure compliance do not promote continual improvement. At the base level, objectives are not set and hence plans do not exist to achieve any. At both the national and base levels, audit and inspection programs are not consistent or implemented fully, and their results do not feed into performance measures aimed at continual improvement toward full compliance.

**13.128** Performance measures in controlling and reducing emissions are also inconsistent, targeting some sources but not others. In part, this reflects the fact that departmental policy applies standards found in provincial and municipal laws only "where appropriate", without defining what this means. As a result, the Department's standards are compatible with some provincial and municipal laws, but not with others.

**13.129** Information and communication are problem areas in several aspects of hazardous material management. National policies do not seem to be communicated effectively, and information on hazardous materials that are used is not readily available and communicated. Improved information systems or approaches used in other countries may offer solutions in some areas.

**13.130** National Defence has committed itself to implement environmental management systems at all levels. If it succeeds, the objective to continually improve compliance will be embedded in policy, plans and procedures at all levels. Effective implementation of environmental management systems would also increase the frequency, comprehensiveness and consistency of internal audits at all levels, which should ensure that external inspections find fewer instances of non-compliance. However, no deadline has been set for implementing environmental management systems across the Department.

# About the Audit

## Objectives

The audit objectives were to determine whether National Defence:

- manages its use of hazardous materials in a way that minimizes the risks to its employees' health and safety and to the environment;
- has systems in place that are effective in ensuring continuing compliance with applicable hazardous materials management laws, regulations and policies; and
- has established appropriate sustainable development targets for hazardous materials and can measure its performance in meeting them.

## Scope

Our audit focussed on two management levels: National Defence headquarters, where policies and procedures are developed and disseminated; and the base level, where hazardous materials are stored, handled, used and disposed of. We looked at policies, procedures and results in the following areas:

- local acquisition of hazardous material;
- systems to ensure compliance with legal and policy requirements;
- audits and inspections;
- programs to monitor air and liquid emissions;
- records of hazardous materials training; and
- progress in developing and implementing the Department's sustainable development strategy objectives for hazardous materials.

## Approach

At the headquarters level, we met with all the organizations in the Department responsible for the various types and life-cycle components of hazardous materials. We obtained and reviewed documentation on legislation, regulations, policies, audits and management systems. We also discussed implementation of the Department's sustainable development strategy.

To assess the state of hazardous materials management at the base level, we selected a sample of 10 Canadian Forces facilities. Our criteria in selecting the bases were representation of all three services and major types of activity, quantities of hazardous material held, number of injuries occurring in recent years, and proximity to populated areas. The bases selected were 3 Wing Bagotville, Canadian Forces Base (CFB) Borden, 4 Wing Cold Lake, CFB Edmonton, CFB Esquimalt, Combat Training Centre (CTC) Gagetown, CFB Halifax, Montreal (Area Support Units Longue Pointe, St-Hubert and St-Jean), 8 Wing Trenton, and Western Area Training Centre Wainwright. Reserve force units and outlying detachments supported by the bases were excluded.

While the bases are not statistically representative, they are significant in their own right. The facilities represent almost one third of Canadian Forces bases, stations and depots. They hold almost 60 percent of the ammunition and radioactive material recorded in the Canadian Forces Supply System, and almost 80 percent of the hazardous chemical products. The bases also employ 35 percent of the Department's regular force military and civilian personnel. The conclusions from this audit should therefore be of interest to departmental officials involved in environmental and materiel management.

At the base level, we met with officials responsible for the environment, hazardous materials, safety, preventative medicine, and fire prevention, and with users of the materials. We obtained and reviewed documentation on management systems, acquisition, training and effluent monitoring.

At three bases, CFB Halifax, CTC Gagetown, and 4 Wing Cold Lake, a team led by certified environmental auditors conducted audits to determine the current state of compliance.

To obtain information on policies and procedures for acquiring hazardous materials and bringing them into inventory, we selected a sample of hazardous products. We chose 10 types of materials that are widely used across the Department, are authorized for local procurement and are among the more hazardous. They included specific types of camouflage paint, paint thinner and remover, anti-seize lubricant, propane and acid. We obtained copies of all 1,760 inventory listings of hazardous chemical products at the 10 bases. We then selected each instance of the materials on the inventory lists and distributed a questionnaire to the person responsible for acquiring it. Because the same person was often responsible for acquiring several products for each inventory, most people who responded filled out more than one questionnaire.

- We found 1,096 instances of our 10 target materials on 609 of the 1,760 inventory lists, and distributed 1,096 questionnaires.
- We received responses to 734 of the questionnaires.
- 127 of the responses indicated that the product was no longer used or in inventory, leaving 607 responses providing information on processes.
- The 607 questionnaires were completed by 224 workers.

To obtain information on training, we requested lists of all personnel who had access to the 609 inventories that included our hazardous products sample items. A total of 6,238 personnel were identified as having access to those inventories, representing 21 percent of the total personnel on the 10 bases. We then randomly selected from among them 50 people per base at 9 of the bases and 65 at Halifax, for a total of 515. Of these, 61 had recently left the Department or been transferred, or were deployed overseas; therefore, we obtained the hazardous materials training records of 454 people.

## Criteria

We expected that:

- departmental activities would comply with all requirements for hazardous materials management contained in federal legislation and regulations, and in departmental policy;
- departmental activities would be compatible with provincial acts, regulations, guidelines and municipal and international standards, where applied;
- the Department would have in place management system elements, consistent with the principles of ISO 14004, to ensure compliance with legal, regulatory and policy requirements; and

- the Department would have identified and implemented hazardous materials management objectives and performance indicators that are complete, meaningful, reliable and practical.

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## Appendix

# ISO 14004 – Environmental Management Systems

ISO 14004 is one of a number of standards published in 1996 by the International Organization for Standardization under the 14000 series. Two of the standards, ISO 14001 and 14004, specifically address environmental management systems (EMS).

An EMS is a systematic process that has roots in a tenet of quality management — namely, continual improvement is a cyclical process that must address internal and external changes. As defined in the ISO 14000 series, an EMS is "that part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy."

Both ISO 14001 and 14004 are process standards, not performance standards. By having the elements of an EMS in place, an organization should be better able to manage its environmental concerns, which in turn should lead to better environmental performance.

Whereas ISO 14001 is a specification standard, ISO 14004 is a guidance standard. On the one hand, ISO 14001 identifies specific elements that must be met for an organization to seek third-party registration or to self-declare as a 14001-certified organization. In doing so, an organization has committed itself to meeting all requirements specified in the standard.

On the other hand, ISO 14004 is a guidance document for organizations. It does not identify specific requirements. Rather, through the use of descriptions, examples and options, it provides information organizations can use in implementing and improving an EMS.

We used the 14004 standard to assess the capability of National Defence to manage hazardous materials, because it provided a more liberal assessment of the existing environmental management framework in place at the Department's facilities.

There are five main principles under the 14004 standard, with each principle subdivided into numerous elements. We selected a number of the elements that are particularly important to compliance and continual improvement.

The principles and elements are:

1. **Commitment and Policy.** An organization should define its environmental policy and ensure commitment to its EMS.
    - Does the policy embody commitments such as continual improvement; monitoring; meeting or exceeding legal requirements?
    - Has an initial environmental review been conducted?
2. **Planning.** An organization should formulate a plan to fulfil its environmental policy.
    - Does the plan address legal and policy requirements?
    - Does the plan establish objectives and targets?
    - Is a management program established to address objectives and targets; is the program reviewed, monitored and revised?
3. **Implementation.** For effective implementation, an organization should develop the capabilities and support mechanisms necessary to achieve its environmental policy, objectives and targets.
    - Are responsibility and accountability clearly defined?

- Are reports containing compliance evaluations and opportunities for improvement communicated to those responsible?
- Are operational processes and procedures defined, documented and updated?

4. **Measurement and Evaluation.** An organization should measure, monitor and evaluate its environmental performance.
   - Does the organization measure and monitor ongoing performance against objectives and targets?
   - Does the organization evaluate compliance with legal and other requirements?
   - Does the organization document findings, and corrective and preventive actions taken?
   - Is there a systematic follow-up to ensure the effectiveness of preventive actions taken?
   - Are records (such as training activity, inspection activity, details of non-conformance) maintained and reviewed?
   - Has the system been audited to determine if it conforms to planned arrangements and is properly implemented and maintained?
5. **Review and Improvement.** An organization should review and continually improve its environmental management system, with the objective of improving its overall environmental performance.
   - Has the system been reviewed to ensure its continuing suitability and effectiveness, in order to identify opportunities for improvement?
   - Does the system embody continual improvement by determining root causes of non-conformance/ deficiencies and developing plans to address root causes?

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

**Chapter 14**
National Health Surveillance: Diseases and Injuries

**Chapter 15**
Management of a Food-Borne Disease Outbreak

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

**Chapter 14**
National Health Surveillance: Diseases and Injuries

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Management of a Food-Borne Disease Outbreak

**September 1999**

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# Chapter 14

## National Health Surveillance

Diseases and Injuries

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 14–5 |
| **Introduction** | 14–7 |
| Sound health surveillance information can save lives | 14–7 |
| Key players in health surveillance | 14–10 |
| Collaboration among all players is essential | 14–10 |
| Focus of the audit | 14–10 |
| **Observations and Recommendations** | 14–11 |
| **Lack of a National Framework for Public Health** | 14–11 |
| **Need for Clearly Defined and Understood Roles and Responsibilities** | 14–11 |
| Clearly understood roles and responsibilities are key to effective health surveillance and disease control | 14–11 |
| Participants in the health surveillance process want a more proactive Laboratory Centre for Disease Control | 14–12 |
| **Protocols, Roles and Procedures for Handling Threats to Public Health** | 14–12 |
| Roles and procedures for controlling diseases at ports of entry are unclear | 14–12 |
| Roles and procedures for LCDC in responding to outbreaks of food-borne diseases have not been defined | 14–13 |
| Roles and responsibilities for dealing with influenza pandemics need to be finalized | 14–15 |
| **Need for Good-Quality, Comparable Health Surveillance Information** | 14–15 |
| Lack of formal arrangements for reporting communicable disease data to LCDC | 14–15 |
| **National Health Surveillance Systems Are Not Working as Intended** | 14–17 |
| Problems in collecting data on communicable diseases | 14–18 |
| Weaknesses in the data on chronic diseases | 14–19 |
| National surveillance information on childhood injuries does not yield a complete picture | 14–20 |
| Weaknesses in data collection lead to delays in dissemination of surveillance information | 14–20 |
| **Progress in Filling Surveillance Gaps** | 14–22 |
| Development of a national diabetes surveillance system has been slow | 14–22 |
| A national surveillance system has not yet been developed for heart disease and stroke | 14–22 |
| **Current Efforts to Improve Health Surveillance** | 14–23 |
| Work has begun on strengthening Health Protection Branch's future surveillance capacity | 14–23 |
| Pilot projects are under way to improve access to data | 14–24 |
| Co-operation is essential to improving health surveillance | 14–24 |
| **Performance Measurement and Reporting of Results** | 14–24 |
| Few systems have been evaluated and there are no plans to evaluate others | 14–25 |
| Need to develop appropriate indicators for measuring performance | 14–25 |
| Only limited use of risk assessment | 14–26 |
| Need for improved reporting of results to Parliament | 14–27 |
| **Conclusion** | 14–27 |
| **About the Audit** | 14–28 |

Page

**Exhibits**


| | | |
|---|---|---|
| 14.1 | Laboratory Centre for Disease Control – Organization and Activities | 14–8 |
| 14.2 | Key Players in Health Surveillance in Canada | 14–9 |
| 14.3 | Responding to a Suspected Entry of a Dangerous Disease Into Canada | 14–14 |
| 14.4 | Nationally Notifiable Diseases | 14–17 |

# National Health Surveillance

## Diseases and Injuries

## Main Points

**14.1** We observed weaknesses in national surveillance of diseases and injuries that, taken together, have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases and with other health threats. Second, they compromise its ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

**Background and other observations**

**14.2** Health surveillance is a core function of public health. National surveillance of communicable and chronic diseases and of injuries is conducted mainly by Health Canada's Laboratory Centre for Disease Control (LCDC), part of the Health Protection Branch. LCDC depends greatly on its interaction and collaboration with the provinces and territories and a variety of other federal departments and non-governmental organizations.

**14.3** There is no specific legislation, policy or agreement that links separate components of public health functions at the various levels of government. Indeed, there is a void: current health surveillance activities are largely carried out on an ad hoc basis.

**14.4** We found few formal agreements or protocols in place to prevent the entry into Canada of serious communicable diseases and to deal with disease outbreaks and threats to public health. The lack of attention to formalizing the way these threats are to be managed places the health of Canadians at undue risk.

**14.5** Key surveillance systems that we looked at were not working as intended. For a number of reasons, they were not enabling Health Canada to effectively monitor communicable diseases such as influenza, AIDS, tuberculosis and food-borne disease. The same is true of systems for surveillance of injuries and chronic diseases such as cancer, diabetes, and heart disease and stroke. We also found that performance measurement and reporting of results need to be improved.

**14.6** Work has begun on strengthening the Health Protection Branch's future surveillance capacity. An important step in this regard is the Branch's support of an integrated national surveillance network for public health information. It is unclear when such a network will be implemented, and it is paramount that all parties involved in this network remain committed to its implementation.

**Health Canada's responses to our recommendations are included in this chapter. The Department concurs with the recommendations and has agreed to take corrective action. In some cases, this action is already under way.**

## Introduction

**14.7** Health surveillance is a core function of the larger framework for public health. That framework links many institutions and disciplines to bring together scientific and technical knowledge in order to promote better health and to prevent and control communicable and chronic diseases and injuries.

**14.8** According to the definition adopted by Health Canada, health surveillance is "the tracking and forecasting of any health event or health determinant through the ongoing collection of data, the integration, analysis and interpretation of those data into surveillance products and the dissemination of such products to those who need to know. Surveillance products are produced for a predetermined public health purpose or policy objective. In order to be considered health surveillance, all of the above activities must be carried out." The single characteristic that makes health surveillance distinct from other health information activities is the requirement for a direct link to a public health purpose or policy objective.

**14.9** Surveillance at Health Canada is undertaken by a number of branches and directorates. National surveillance of communicable and chronic diseases and injuries is conducted mainly by the Laboratory Centre for Disease Control (LCDC) of the Health Protection Branch; it is Canada's national centre for the identification, investigation, prevention and control of human disease (see Exhibit 14.1). The provinces and territories and a variety of other federal departments and non-governmental organizations provide the data for input to LCDC's systems (Exhibit 14.2). Data include provincial and regional statistics on hospitalizations for injuries and the incidence and prevalence of communicable and chronic diseases, physicians' reports, and so on.

**14.10** National surveillance systems produce and disseminate information for organizations involved in public health. This information is an essential tool that helps on a national level to identify, investigate, monitor, prevent and control diseases and injuries. At the international level, national surveillance information supports World Health Organization surveillance programs. It is also used in disease prevention and control efforts with other international health organizations and centres for disease control in other countries.

**14.11** To the extent that the information provided by Health Canada's surveillance systems is up-to-date and accurate, it can play a valuable role in helping to prevent and control diseases and injuries and to develop policies and strategies for improving the health of Canadians. At the same time, incomplete or otherwise deficient information can hamper the efforts of public health authorities to understand and respond appropriately to potential health risks.

### Sound health surveillance information can save lives

**14.12** The strengths — and any weaknesses — in health surveillance affect Canadians directly. For example, anticipating the timing of a flu epidemic and identifying the particular strain of the virus involved can save the lives of children and the elderly, who are especially vulnerable to influenza and its ensuing complications. Surveillance information is also essential to detecting patterns of diseases such as cancer: it can be used, for example, to identify possible links between the disease and what we eat and drink. It can also play a key part in looking on a national basis at prevention, screening and treatment to determine where the "success stories" are — what has worked and may have the potential to save lives.

**The Laboratory Centre for Disease Control is Canada's national centre for the identification, investigation, prevention and control of human disease.**

Exhibit 14.1

**Laboratory Centre for Disease Control – Organization and Activities**

*In 1999–2000, LCDC has a budget of approximately $43 million and over 270 employees. It is divided into nine bureaus, with staff located mainly in Ottawa (with the exception of the Bureau of Microbiology, located in Winnipeg) and over 30 program areas addressing various public health issues.*

| Bureau | Division(s) |
|---|---|
| 1. Cancer | Prevention<br>Environmental Risk Assessment and Case Surveillance<br>Behavioural Risk Assessment<br>Cancer Control Assessment and Surveillance |
| 2. Cardio-respiratory Diseases and Diabetes | Cardiovascular Disease<br>Respiratory Disease<br>Diabetes |
| 3. Reproductive and Child Health | Child Injury<br>Reproductive Health<br>Child Maltreatment |
| 4. HIV/AIDS, Sexually Transmitted Disease and Tuberculosis | HIV Epidemiology<br>HIV/AIDS Surveillance<br>National HIV/AIDS Laboratories<br>Sexually Transmitted Disease Prevention and Control<br>Tuberculosis Prevention and Control<br>Blood Safety |
| 5. Infectious Disease | Respiratory Diseases<br>Enteric, Foodborne and Waterborne Diseases<br>Disease Surveillance<br>Immunization<br>Bloodborne Pathogens<br>Nosocomial and Occupational Infections |
| 6. Microbiology | Bacteriology<br>Zoonotics and Level 4 Programs<br>National Laboratory for Enteric Pathogens<br>Sexually Transmitted Diseases<br>Host Genetics and Prions Disease<br>Viral Diagnostics<br>Core Services and Business Development |
| 7. Global Surveillance and Field Epidemiology | Quarantine and Migration Health<br>Travel Medicine Program<br>Field Epidemiology Training Program<br>Global Public Health Intelligence Network |
| 8. Canadian Blood Secretariat | |
| 9. Office of Biosafety | Importation and Biosafety<br>Biocontainment and Certification<br>Biosafety Services |
| 10. Operations, Planning and Policy | |
| 11. Directorate Management/ Secretariat | |

**Source:** Laboratory Centre for Disease Control

**14.13** Health surveillance is critical in responding to a changing reality. Global factors have dramatically increased the danger of communicable diseases being transmitted on a worldwide basis. Increased travel and migration, global food-supply lines, the return of old communicable diseases and the emergence of new "super bugs" have lent a new urgency to surveillance. These factors have the potential to pose serious threats to the health of all Canadians.

**14.14** **Surveillance at work.** There are examples that show how health surveillance has benefited Canadians. For example, through a voluntary standard, new baby walkers have not been sold in Canada since 1989. However, surveillance information from Health Canada's Canadian Hospitals Injury Reporting and Prevention Program (CHIRPP) showed that in Winnipeg there were still one or two babies injured each month in accidents involving baby walkers. In April 1997, acting on CHIRPP information, officials launched a one-day blitz in Winnipeg to encourage parents to turn in any remaining baby walkers. The response was immediate, and 168 baby walkers were brought to a collection depot. In the eight months following the local campaign, only four walker injuries were seen at the Winnipeg pediatric centre.

**14.15** There have also been cases of sudden public health threats to which LCDC has had to turn its attention. During the recent Kosovo refugee operation, Citizenship and Immigration Canada (CIC) as the lead department requested LCDC's participation. LCDC was

Exhibit 14.2

**Key Players in Health Surveillance in Canada**

**Laboratory Centre for Disease Control (LCDC)**

- Located in the Health Protection Branch at Health Canada, LCDC is the national centre for the identification, investigation, prevention and control of human diseases. Its core activities are national health surveillance, disease prevention and control. It relies largely on provincial and territorial surveillance data in order to create a national picture of health risks, patterns and trends across Canada.

**Provinces and territories**

- Responsible for health matters within their own jurisdictions. In the case of surveillance and prevention and control of diseases, among other things, responsible for: carrying out vital statistics registration; ongoing surveillance of health conditions within the province or territory; outbreak investigations within the province or territory; public health laboratory-based surveillance; and analysis and interpretation of notifications from physicians, health units and other reporting sources.

**Statistics Canada**

- Primarily responsible for the collection and reporting of health, morbidity and mortality statistics. While the Agency is not directly involved in surveillance of communicable diseases, it undertakes, often on contract to Health Canada, surveys and data integration activities relating to specific chronic diseases.

**Canadian Institute for Health Information (CIHI)**

- National, not-for-profit organization working to improve the health of Canadians and the health system by providing quality health information. Its mandate is to develop and maintain a comprehensive, nation-wide health information system. CIHI provides information that is needed to establish sound health policies, manage the Canadian health system effectively and create public awareness of factors affecting good health.

**Non-governmental organizations**

- Numerous coalitions and non-governmental bodies undertake disease surveillance in areas such as cancer, cardiovascular diseases and diabetes.

A key element in national health surveillance is collaboration — between Health Canada and the other organizations involved in public health, and among all of them.

involved in planning and overseeing medical aspects of the operation because of the health threat associated with this mass influx of refugees. Surveillance was a key aspect of this operation, identifying those with communicable diseases and monitoring their movement after their arrival. It also helped in estimating the potential tuberculosis problems and the associated immunization requirements, as well as the need to deal with the psycho-social problems associated with post-trauma stress disorders from which many refugees suffered.

### Key players in health surveillance

**14.16** LCDC is only one player — but a key one — in the health surveillance process. As we have noted, others supply the data to LCDC, and federal organizations and provincial and territorial health systems are responsible for implementing any strategies that may flow from LCDC's health surveillance activities.

**14.17** Clearly, LCDC depends greatly on its interaction with the many and varied players who make a key contribution to the effectiveness of the health surveillance system. We recognize, therefore, that Health Canada's LCDC is not solely responsible for a number of observations that we discuss in this chapter — in areas such as the quality and comparability of surveillance information; data collection; and dissemination of surveillance information. Nonetheless, identified weaknesses need to be fixed, and LCDC needs to champion change by strongly promoting that all players work together to improve the surveillance on which Canadians rely to protect their health. This chapter raises other issues that are within Health Canada's control — in areas such as clarifying roles and responsibilities and improving performance measurement. These the Department could deal with on its own.

### Collaboration among all players is essential

**14.18** A key element in national health surveillance is collaboration — between Health Canada and the other organizations involved in public health, and among all of them. Such collaboration is necessary to agree on and develop common procedures and protocols for key activities. These activities range from collecting and reporting data from physicians and other sources (the foundation of subsequent efforts to identify health risks and ultimately to reduce or control them) to responding directly to outbreaks of communicable diseases.

**14.19** By playing a leadership role in fostering greater collaboration among the various players — federal, provincial and territorial — Health Canada would be taking an important step toward improving health surveillance and thereby the health of Canadians. Regardless of who takes the lead, however, this and the other issues that we raise need to be addressed without delay.

### Focus of the audit

**14.20** We examined the way Health Canada carries out national health surveillance and control activities, and how those activities support the other components of the public health framework. The audit focussed on surveillance and control activities related to communicable and non-communicable diseases as well as to injuries. We examined the Department's processes for collecting, analyzing and interpreting data and disseminating information, and how that information has been applied to prevention and control activities. Our examination also looked at ongoing "transition" initiatives of the Health Protection Branch that affect national health surveillance. Further details on the audit scope, objectives and criteria are presented at the end of the chapter in **About the Audit**.

## Observations and Recommendations

### Lack of a National Framework for Public Health

**14.21** The provinces and territories are responsible for providing many public health services; Health Canada is responsible for protecting Canadians against risks to health and the spread of diseases. However, there is no specific legislation, policy, or agreement that links separate components of public health functions at the various levels of government.

**14.22** Each province and territory has its own public health legislation covering the responsibilities of medical officers of health with respect to public health, surveillance and disease control. Their responsibilities include detecting and investigating cases of communicable diseases, and their powers extend to taking the necessary steps to limit the spread of diseases.

**14.23** For example, in Alberta, provincial legislation requires a medical officer to investigate all cases of communicable diseases that must, by law, be reported in the province. The investigation is to establish the cause of the disease, the mode of transmission and the probable source, and to identify others who may be at risk. The medical officer takes whatever steps are reasonably possible to treat diseases in those who may already have been infected, protect those who have not already been exposed, break the chain of transmission and prevent the spread of the disease, and remove the source of infection.

**14.24** While each province and territory has a legislated public health function, at the national level there is no formal public health function established that links the separate components in the provinces and territories. Instead, there is an informal system that relies on personal contacts rather than formal arrangements. As we note later in the chapter, there is a void; current health surveillance activities are largely carried out on an ad hoc basis.

**14.25 Health Canada should initiate discussions with provinces and territories on a national framework that would link separate components of public health functions at the various levels of government to protect Canadians against risks to health and the spreading of diseases.**

***Department's response:*** *Agreed; implementation is under way. Most recently, funding has been renewed and increased for the National Health Surveillance Infostructure (NHSI), the federal component of the Network for Health Surveillance in Canada now being developed, and planning is well advanced for the second phase. By the end of the year, the federal/provincial/territorial Working Group on Health Surveillance will prepare for the consideration of deputy ministers of health a strategic plan and a business plan for the development of the Network. In addition, surveillance is being considered in the context of Health Canada's review of federal health protection legislation.*

**Current national health surveillance activities are largely carried out on an ad hoc basis.**

### Need for Clearly Defined and Understood Roles and Responsibilities

**Clearly understood roles and responsibilities are key to effective health surveillance and disease control**

**14.26** Globalization has created an environment for disease and for its transmission that never existed before. Health concerns are no longer always the responsibility of one jurisdiction, as diseases do not respect borders. This means that collaboration and co-operation between jurisdictions are vital to effective surveillance.

**14.27** Given that national health surveillance and disease control involve

many jurisdictions and players, all those involved must clearly understand their respective roles and responsibilities. This is particularly important in responding to emergency situations and disease outbreaks.

**14.28** LCDC is one of the key participants involved in national health surveillance and in investigating and controlling disease outbreaks. Accordingly, we would expect that other players in the health surveillance process would be aware of LCDC's central role and responsibilities in these areas. However, we found that Health Canada has not clearly communicated LCDC's role and responsibilities to provincial and local health authorities. Not surprisingly, they do not fully understand the part that LCDC plays in health surveillance and in the prevention and control of diseases.

Formal arrangements are important to clarify roles, responsibilities and procedures of all players so that authorities can act quickly when public health is at risk.

**Participants in the health surveillance process want a more proactive Laboratory Centre for Disease Control**

**14.29** In November 1997, LCDC surveyed medical officers of health, epidemiologists, public health staff and laboratory directors at the provincial, regional and local levels. The survey found that participants would like LCDC to play a more proactive role in health surveillance. Some local practitioners indicated that LCDC's role is largely invisible; others were unaware of the surveillance-related support it offers beyond high-profile activities such as conferences and publications.

**14.30** The survey also noted that LCDC's complex and ever-changing organizational structure is confusing to provincial and territorial participants. Often they are not sure whom they should call when they need advice or other support from LCDC. As well, the survey indicated that the provinces and territories strongly agree on the need for LCDC to provide leadership by carrying out national surveillance work and providing analytical support.

**14.31** As part of its transition initiative, the Health Protection Branch has responded to this concern by initiating efforts to clarify roles and responsibilities within an integrated national health surveillance network. These efforts include consultations with stakeholders across Canada.

## Protocols, Roles and Procedures for Handling Threats to Public Health

**14.32** The success of national health surveillance depends largely on the ability of federal, provincial, territorial and local health departments and organizations to develop partnerships, to collaborate and to understand clearly what needs to be done to prevent diseases and mitigate their impacts — who should do it, and when and how it should be done. Where jurisdiction is shared, formal arrangements are important to clarify roles, responsibilities and procedures of all players so that authorities can act quickly when public health is at risk.

**14.33** We expected that formal agreements or protocols would be in place to prevent the entry into Canada of serious communicable diseases such as drug-resistant tuberculosis, and to deal with disease outbreaks and threats to public health. However, we found that there are few formal agreements or protocols for dealing with these potential problems. In our view, the lack of attention to formalizing the way these threats are to be managed places the health of Canadians at undue risk.

**Roles and procedures for controlling diseases at ports of entry are unclear**

**14.34** Globalization and ever-increasing international travel provide the opportunity for various communicable diseases or infected individuals to enter Canada. In 1978, Health Canada published

a Canadian contingency plan for handling viral hemorrhagic fevers and other unusual imported communicable diseases. The purpose of the contingency plan is twofold. First, it defines a co-ordinated response to the importation of suspected and confirmed cases of unusual or emerging communicable diseases. Second, it provides guidance on dealing with infected or potentially infected people and those with whom they have come in contact. The goal is to prevent diseases from being introduced into Canada and spread.

**14.35** Although this plan was revised in 1985 and again in 1997, it still does not clearly define roles and procedures for those involved in this work — that is, the plan does not specify who is responsible for doing what. We found that contingency plans and protocols with clearly defined roles and procedures exist at ports of entry only in British Columbia and at Lester B. Pearson International Airport in Toronto. At the time of our audit, Health Canada officials expected that a protocol at Montreal International Airport, Dorval would be finalized in the near future. No protocols are in place at other ports of entry.

**14.36** An incident involving a suspected case of a highly contagious disease occurred at Montreal International Airport, Dorval in August 1998. The case illustrates the importance of having clearly defined protocols to deal with such incidents.

**14.37** In this case, Customs detained an arriving passenger suspected of being infected; the rest of the passengers were released. Federal quarantine officials were not consulted about either the initial detention of the individual or the release of the other passengers. The individual was eventually examined by Health Canada officials. If the individual suspected of having the disease had actually been infected, it would have been difficult to trace all the passengers who had been on the flight, in an effort to avoid an outbreak. At the time, there was no specific protocol at this airport that clearly specified roles and procedures for dealing with such incidents. Nor was there a formal memorandum of understanding between Health Canada and Revenue Canada (Customs) on how to manage this kind of incident. At the airport, there was significant confusion about who had what authority to detain or release passengers. Most of the federal and local officials who were involved (including officials from Revenue Canada and Citizenship and Immigration Canada) did not know that a Canadian contingency plan for viral hemorrhagic fevers and other related diseases even existed. Immediately after this incident, Revenue Canada issued interim instructions to its officials for quarantine situations. Exhibit 14.3 provides details of the incident.

**Roles and procedures for LCDC in responding to outbreaks of food-borne diseases have not been defined**

**14.38** We noted that the only documented, formal arrangements concerning food safety matters were three agreements. In addition to a 1996 agreement between Health Canada, the Department of Fisheries and Oceans and Agriculture and Agri-Food Canada, in 1997 Health Canada and the Canadian Food Inspection Agency signed a Memorandum of Understanding dealing with food safety and related areas. The Canadian Food Inspection Agency and the Food Directorate of the Health Protection Branch also signed an MOU dealing with food safety emergency response. It gave Health Canada responsibility for conducting health hazard evaluations at the request of the Canadian Food Inspection Agency. However, there is no agreement that specifically covers the role of LCDC in the investigation of food-borne disease.

**14.39** Nor do formal protocols exist between LCDC and the provinces and territories for investigating and responding

to interprovincial or national outbreaks of food-borne disease. Such protocols are important because many food products are so widely distributed that large numbers of people can become infected within a short time. At the time of our audit, an investigation protocol was being drafted among Health Canada, the Canadian Food Inspection Agency and provincial/territorial governments, but it had not been finalized.

**14.40** LCDC prepared a draft emergency response plan for internal use in August 1997 that described all aspects of responses to various general emergencies (including outbreaks of communicable diseases). The plan directed that all LCDC employees be responsible for both familiarizing themselves with the plan and following the policies and procedures it outlined. We did not see any evidence that departmental

Exhibit 14.3

**Responding to a Suspected Entry of a Dangerous Disease Into Canada**

**Background**

- On 27 August 1998, Revenue Canada's Customs Intelligence received an anonymous call that an individual who would be entering Canada was infected with a dangerous disease and in possession of contraband narcotics. The information was considered to be "soft", but a "lookout" was issued to intercept this person on entry.
- On the evening of 30 August 1998, the individual arrived at the Montreal International Airport, Dorval from New York City and was detained at the airport in one of Customs search rooms. A local ambulance was called to transport the passenger to a hospital, but the attendants were hesitant to move the person. Someone also suggested isolating 15 staff who had had close contact with the individual after arrival. Other passengers were released after the airline obtained information on how to locate them should follow-up be required. Federal quarantine officials were not consulted. The plane then departed with a new cohort of passengers to New York City.
- Health Canada's Laboratory Centre for Disease Control (LCDC) was notified that evening. It contacted Customs officials, the federal stand-by quarantine officer in Montreal, the La Guardia Airport authorities in New York and the U.S. Centers for Disease Control and Prevention (CDC). CDC had not been aware of the situation since its on-site quarantine officers were not consulted.
- LCDC officials proceeded immediately to the airport to interview the individual (a returning Canadian) and review his travel documents. The individual was released soon after LCDC quarantine authorities determined that he was not infected with a dangerous virus.

**Issues**

- There was a significant breakdown in communication, and confusion as to who had what authority, in responding to this suspected dangerous disease incident.
- On 31 August 1998, LCDC officials attended a debriefing session with representatives of the Airport authority, the airline, RCMP, Revenue Canada, Citizenship and Immigration Canada and the local ambulance. Except for the RCMP, none was aware that there was a Canadian contingency plan for viral hemorrhagic fever and other dangerous communicable diseases, published by Health Canada.
- Revenue Canada's Customs Intelligence received the anonymous call on 27 August 1998, four days before the individual was identified and detained. However, it did not follow its procedure for notifying Health Canada when a health risk is involved. Had advance notice been given to LCDC, it could have worked out a plan in collaboration with the Airport authority to identify respective responsibilities and the necessary action if and when the individual was detained. Such action might have prevented the unnecessary delays and anxieties caused at the airport.
- There was no formal memorandum of understanding between Health Canada and Revenue Canada on the management of persons seeking admission to Canada with a suspected quarantinable disease. At the time of the incident, there were no formal protocols at this airport with respect to suspected importation of dangerous communicable diseases. It was unclear who had what authority. All the other passengers on that plane were released without consulting federal quarantine authorities. If the individual had been carrying the suspected virus, it would have been difficult to trace all the passengers who had been aboard the flight.

officials had consulted the plan in 1998 when a national outbreak of food-borne disease posed serious risks to many children. In fact, those directly responsible for managing the outbreak had never seen the plan. This outbreak of food-borne disease is discussed in Chapter 15 of this Report.

**Roles and responsibilities for dealing with influenza pandemics need to be finalized**

**14.41** In 1996, LCDC co-ordinated the drafting of a contingency plan for pandemic influenza. The plan assigns Health Canada responsibility for co-ordinating its implementation in the event of a pandemic. The plan provides a framework for planning, preparing and implementing a response to a pandemic. It identifies the roles of a pandemic influenza committee, as well as federal departments, provinces and designated professional organizations. It also includes estimates of vaccine requirements for anticipated high-risk groups as well as the capacity of manufacturers for expanded production.

**14.42** In June 1998, federal, provincial and territorial deputy ministers of health indicated that they wanted to develop a memorandum of understanding regarding their respective roles and responsibilities in the event of an influenza pandemic, and to agree on the creation of a pandemic influenza committee. As of May 1999, this memorandum of understanding was still being developed.

**14.43** The last pandemic was in 1968. Historical trends and available scientific knowledge have led health officials to predict that another pandemic is likely. New strains of influenza are appearing that threaten the health of Canadians. It is important, therefore, that formal plans and agreements be in place to deal with another pandemic.

**14.44 Health Canada should finalize agreements and protocols with relevant organizations covering roles, responsibilities and procedures for handling threats to public health, such as controlling diseases at ports of entry, managing outbreaks of food-borne diseases and dealing with influenza pandemics.**

***Department's response:*** *Agreed. Health Canada is collaborating with the Canadian Food Inspection Agency (CFIA) and provincial and territorial governments to finalize a protocol specifically intended for managing food-borne illness outbreaks. The development of further such agreements with relevant organizations, including those for disease control at ports of entry, will ensue.*

*A memorandum of understanding on a national response to an influenza pandemic is under intensive discussion with the provinces and territories at this time.*

## Need for Good-Quality, Comparable Health Surveillance Information

**14.45** We would expect that all players in the health surveillance process would use common standards and protocols to classify, collect and report data on diseases and injuries. Common or uniform standards and protocols are critical to ensuring that surveillance information is comparable across the country. Information needs to be comparable if governments, decision makers and the public are to be properly informed about risk patterns and trends in the occurrence of diseases and injuries.

**Lack of formal arrangements for reporting communicable disease data to LCDC**

**14.46** Health Canada has no formal arrangements with the provinces covering the procedures for collecting and exchanging data on communicable diseases. It drafted a memorandum of understanding covering the exchange of

data on these diseases some 10 years ago, but this was never finalized with the provinces and territories. Currently, provinces and territories report cases of nationally reportable communicable diseases to LCDC on a solely voluntary basis, and they submit the data according to different criteria. For example, information on tuberculosis that LCDC receives (and then presents) is based on the date of onset of illness in Ontario but the date of diagnosis in all other provinces. This makes it difficult to compile a national picture of how many people have tuberculosis and for how long they have been infected.

**14.47** LCDC has developed forms for collecting data on tuberculosis and AIDS as well as for several other diseases. These forms provide a structure for the provinces and territories to follow when submitting their data on these diseases. We note that to encourage physicians to report their AIDS data, British Columbia has issued a "short form" version of LCDC's form. This means that, even though it has specified its requirements, LCDC is unable to collect all the data it needs. Nor have similar forms been developed for most diseases. As a result, provinces submit widely varying types of data to LCDC, depending largely on what data they have available or choose to send. LCDC receives large amounts of data, but much of the data received is of limited usefulness because they are not comparable or uniform. For example, we found that provinces submit case-by-case data on a total of 114 elements. However, of these elements, only eight are common to — that is, reported for — all cases. We also found that no common format exists for reporting data. LCDC receives some data in electronic format and other data in hard copy.

**14.48** Co-ordinating these disparate reports at the federal level is a time-consuming undertaking. Non-comparable data and different reporting procedures make it difficult to produce timely reports that yield accurate national "snapshots" of individual communicable diseases.

**14.49** The national Advisory Committee on Epidemiology (ACE), which includes representatives from the provinces and territories, has helped to compile definitions of communicable diseases and to classify certain ones as "notifiable". Notifiable diseases are those that are reported across Canada (see Exhibit 14.4). However, provincial and territorial health authorities are not obliged to use ACE's definitions and its list of notifiable (reportable) diseases. Furthermore, there is still a need for agreement on which of several emerging diseases should be added to the list of reportable diseases and how they are to be defined.

**14.50** For example, chicken pox was reported nationally between 1924 and 1959, and then it was dropped from the list of reportable diseases. In 1986, it was put on the list again. Because new vaccines are available for chicken pox, surveillance information is important to help determine their efficacy. However, since 1986, reporting of chicken pox to LCDC by the provinces and territories has not been universal. Incidence data from 1998 are available for only eight provinces and territories, representing only about 55 percent of Canada's population. It is estimated that of the number of cases projected annually — approximately 380,000 — fewer than 20 percent are reported.

**14.51** Clearly, comparable surveillance data are essential to estimate the size of a health problem and to determine its economic burden on society, to characterize trends, and to evaluate intervention and prevention programs. Deficiencies in our national health surveillance information also affect Health Canada's ability to provide valid information for use internationally to address global issues of disease control.

**14.52 Health Canada should work with provinces and territories to establish common standards and protocols for classifying, collecting and reporting data on communicable diseases.**

***Department's response:*** *Agreed; implementation is under way. In conjunction with the Communicable Diseases Subcommittee of its Advisory Committee on Epidemiology, which comprises representatives from all provincial and territorial ministries of health, the Laboratory Centre for Disease Control has concluded an agreement on which diseases are nationally notifiable and on definitions of surveillance. The next task, scheduled to commence in the fall of 1999, will be to develop common data standards for the reporting of nationally notifiable diseases.*

## National Health Surveillance Systems Are Not Working as Intended

**14.53** A critical component of health surveillance is information. To carry out its surveillance responsibilities, Health Canada needs health surveillance systems that allow it to monitor diseases and injuries effectively on a national level. These systems are central to collecting, analyzing and disseminating information on the incidence and prevalence of an injury or disease (the number of new cases and the total number of cases of a given disease, and who — age, gender, occupation, etc. — is most likely to suffer from it).

**14.54** Good-quality and timely information is the critical element in anticipating, preventing and controlling health risks that affect the well-being of Canadians. The purpose of Health Canada's surveillance systems is to provide such information.

Exhibit 14.4

**Nationally Notifiable Diseases[1]**

| Disease | Year First Reported[2] |
|---|---|
| AIDS | 1986 |
| Amoebiasis | 1927 |
| Botulism | 1933 |
| Brucellosis | 1928 |
| Campylobacter | 1986 |
| Chancroid | 1979 |
| Chlamydia, genital | 1990 |
| Chicken pox | 1924-1959, 1986 |
| Cholera | 1974 |
| Diphtheria | 1924 |
| Giardiasis | 1983 |
| Gonococcal infections | 1924 |
| Gonococcal ophthalmia neonatorum | 1979 |
| *Heamophilus influenzae* B | 1979 |
| Hepatitis A | 1927-1958, 1969 |
| Hepatitis B | 1969 |
| Hepatitis C | 1991 |
| Hepatitis non-A, non-B | 1983 |
| Legionellosis | 1986 |
| Leprosy | 1925 |
| Listeriosis | 1990 |
| Malaria | 1929 |
| Measles | 1924 |
| Meningitis, pneumococcal | 1979 |
| Meningitis, other | 1979 |
| Meningitis, viral | 1952 |
| Meningococcal infections | 1924 |
| Mumps | 1924-1959, 1986 |
| Paratyphoid | 1924-1952, 1969 |
| Pertussis | 1924 |
| Plague | 1924[3] |
| Poliomyelitis | 1924 |
| Rabies | 1927 |
| Rubella | 1924 |
| Rubella, congenital | 1979 |
| Salmonellosis | 1958 |
| Shigellosis | 1924 |
| Syphilis, congenital | 1992 |
| Syphilis, early latent | 1992 |
| Syphilis, early symptomatic | 1979 |
| Syphilis, other | 1924 |
| Tetanus | 1957 |
| Tuberculosis | 1924 |
| Trichinosis | 1929 |
| Typhoid | 1924-1952, 1969 |
| Verotoxigenic *Escherichia coli* | 1990 |
| Yellow fever | 1924[3] |

[1] Provinces and territories are not required by legislation to report on this list of diseases to LCDC.

[2] Where reporting stopped, for whatever reason, the dates indicate for what period and then the year when reporting began again.

[3] Reportable since 1924, but no cases have been reported.

**Source:** Laboratory Centre for Disease Control

**14.55** Key surveillance systems that we looked at were not working as intended. For a number of reasons, they were not enabling Health Canada to effectively monitor communicable diseases such as influenza, AIDS, tuberculosis and food-borne disease. The same is true of systems related to chronic diseases such as cancer, diabetes, and heart disease and stroke.

Taken together, the weaknesses that we observed have clear national implications for public health.

**14.56** Taken together, the weaknesses that we observed have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases. Second, they compromise its ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

### Problems in collecting data on communicable diseases

**14.57** The lack of common standards and agreed-upon procedures for reporting information at the provincial and territorial levels has a significant effect on systems at the national level.

**14.58** We recognize that Health Canada does not have direct control over the quality and completeness of the data that others submit. Nevertheless, any deficiencies in these data severely impair the effectiveness of the Department's national health surveillance activities.

**14.59** We found widespread delays in reporting cases of AIDS, tuberculosis, and other communicable diseases to Health Canada. The Department allows provinces and territories eight weeks after the end of each six-month period to report all AIDS cases. This timing permits it to publish a surveillance report within one month after receiving the data. However, we found that about half of the recorded AIDS cases were not reported until nine or more months after diagnosis. The longest delay in reporting was 16 years. Moreover, some physicians do not report all AIDS cases (the extent of this non-reporting is also unknown).

**14.60** Because of these delays in reporting and the unknown extent of non-reporting, the AIDS-related information that Health Canada produces does not accurately portray, for example, the number of people living with AIDS, or the number who have died from it. Such basic information is essential to developing effective national strategies and programs to deal with this disease. The Department has recognized these problems for a long time. Since 1993, it has attempted to apply statistical methods to adjust the number of AIDS cases in order to take reporting delays into account, and it has included the analysis in its surveillance reports as a regular feature. However, it now suspects that reporting patterns may have changed in the past year or two and that these changes may need to be incorporated in the statistical methods it uses to analyze reporting delays. The Department believes it is necessary to assess the reporting patterns and improve the methods before new adjustments are published. Therefore, it did not include this feature in its report for 1998. Nevertheless, AIDS cases diagnosed by physicians but never reported to LCDC cannot be estimated by this analysis.

**14.61** We recognize that Health Canada has no authority to compel physicians to report communicable diseases. Non-reporting is largely beyond its control, since authority rests with the provinces. The 1997 report of the Krever Commission recommended that the governing bodies of physicians and surgeons in the provinces and territories require physicians to report communicable diseases. However, provincial and territorial practitioners continue to either underreport communicable diseases or not report them at all. This continues to be an important, long-standing problem.

**14.62** We found weaknesses in the data being input to FluWatch, a system for both collecting "local" data on influenza and feeding the results back to the provinces and territories to provide them with national influenza-related information. Regional reporting varied widely, with some regions not reporting at all. In 1997–98, 191 physicians were recruited from across Canada to provide weekly reports on influenza cases over the reporting period. On average, only 115 physicians (60 percent) submitted a report each week, and only 100 (52 percent) submitted reports for at least 20 of the 27 weeks required. Moreover, the Department does not obtain timely and accurate data on hospitalizations and deaths from pneumonia and influenza for its FluWatch report. This information is essential for developing a strategy to ensure that the most vulnerable in the population (the elderly and children) will be vaccinated in the event of an influenza pandemic.

**14.63 Health Canada should work with provinces and territories to explore ways to improve the reporting of communicable diseases by physicians.**

***Department's response:*** *Agreed. Health Canada will commence discussion of this important issue at the next meeting of the Council of Chief Medical Officers, to be held this fall.*

### Weaknesses in the data on chronic diseases

**14.64** As was true of data collection relating to communicable diseases, there are gaps in surveillance information on certain chronic diseases — for example, diabetes and heart disease and stroke. Some work is being done to correct this situation (see paragraphs 14.81 to 14.88), but further work is needed to generate surveillance information on these chronic diseases.

**14.65** We reviewed two cancer surveillance systems: the Childhood Cancer Treatment and Outcome Surveillance System and the National Enhanced Cancer Surveillance System. We noted weaknesses similar to those we found in the data on communicable diseases. Here, too, deficiencies in the data have meant important gaps in information on cancer prevention, control and treatment outcomes at the national level.

**14.66** The Childhood Cancer Treatment and Outcome Surveillance System is designed to provide information on access to treatment, outcomes, and regional differences in diagnosis and initial therapy. We found that Health Canada is able to obtain only partial data for 1995 and 1996 from Ontario, which accounts for a significant proportion of childhood cancer cases in Canada. We also noted that the system contains incomplete data on youths between 15 and 19 years of age. Individuals in this age group often receive treatment at general hospitals, which, unlike pediatric hospitals, do not typically supply data to the system.

**14.67** The National Enhanced Cancer Surveillance System has the potential to provide comprehensive information on the linkages between cancer and environmental factors. However, the Department told us that there are gaps in environmental data because complete data are not available from most provinces. Some surveillance information has been produced, but gaps need to be filled if the system is to reach its full potential.

**14.68 Health Canada, in collaboration with provinces and territories and with other organizations, should strengthen its Childhood Cancer Treatment and Outcome Surveillance System and National Enhanced Cancer Surveillance System to ensure that gaps in surveillance information are filled.**

There are gaps in surveillance information on certain chronic diseases.

***Department's response:*** *Agreed; implementation is under way. The Laboratory Centre for Disease Control's review of the sources of data used for all of its surveillance systems will be*

*completed in September 1999. This will be followed by a systematic evaluation of the effectiveness of its surveillance activities, including a review of the quality of data sources. The Department is currently assessing its needs for cancer surveillance, particularly related to the environment. Subsequent improvements in data sources and enhancement of data quality where necessary will assist in filling gaps in surveillance information in all systems.*

### National surveillance information on childhood injuries does not yield a complete picture

**14.69** In 1990, LCDC's Child Injury Division established the Canadian Hospitals Injury Reporting and Prevention Program (CHIRPP). This is a surveillance system for collecting data on the nature and circumstances of injury of persons seeking emergency medical care in Canadian hospitals. CHIRPP collects injury statistics from 16 hospitals, including 10 pediatric hospitals. Its focus is on children, and its objective is to reduce the incidence and severity of childhood injuries from all causes.

**14.70** CHIRPP is an important initiative that provides useful information. However, we noted two significant gaps. Three provinces are not represented in the system at all, and there is little coverage of injuries that occur in rural areas. For example, there is no coverage of farm injuries that occur in Saskatchewan.

**14.71** Such incomplete data hamper CHIRPP's ability to generate an accurate national picture of where and to whom injuries are occurring, and the types of injuries involved. Without this kind of information, it is difficult for CHIRPP to fully achieve its stated objective of reducing the number and severity of injuries to children.

**14.72 Health Canada should ensure that its Canadian Hospitals Injury Reporting and Prevention Program provides a complete national picture on childhood injuries from all causes.**

***Department's response:*** *Agreed. The Laboratory Centre for Disease Control's present review of data sources for all surveillance systems and its subsequent evaluation of the efficiency and effectiveness of its surveillance activities will provide the information needed to enhance all of its programs.*

### Weaknesses in data collection lead to delays in dissemination of surveillance information

**14.73** Dissemination of information represents the final stage of Health Canada's health surveillance activities. This is the point at which information is placed in the hands of those who need to have it — the organizations responsible for implementing plans and strategies to deal with public health problems. The effectiveness or value of Health Canada's health surveillance systems depends on the extent to which the information they produce is disseminated and used by other organizations and levels of government to improve the health of Canadians.

**14.74** Each bureau of LCDC responds to specific requests for surveillance information and distributes data through various publications. For example, the Cancer Bureau prepares detailed summaries of cancer incidence in specific areas in response to external requests, produces various cancer updates and publishes articles in peer-reviewed journals. As well, LCDC has made an effort to disseminate its surveillance information more effectively. In 1996 its Document Dissemination Division was created with a mandate to strengthen dissemination activities. Its responsibilities include co-ordination of publications, editorial production, and electronic dissemination. Key publications include the *Canada Communicable Disease Report*, published twice monthly, and *Chronic Diseases in Canada*,

published quarterly. As well, LCDC posts information on the Internet.

**14.75** However, the quality of this information depends on how well the other components of the system are working. Unless the "up front" weaknesses in data collection are dealt with, the availability of up-to-date and good-quality health surveillance information will be compromised. The problems of out-of-date and incomplete data have led to delays in publishing certain reports.

**14.76** We noted that surveillance information on AIDS for the period up to 31 December 1998 was published within a reasonable time (in April 1999). However, the latest available information on tuberculosis and many other communicable diseases is for the period ended 31 December 1996, because Health Canada believes that more recent data are incomplete. The lack of up-to-date information on tuberculosis impairs Canada's ability to not only monitor this global disease but also evaluate the effectiveness of the criteria used and process in screening for and controlling the entry of tuberculosis into this country.

**14.77** Similarly, while Health Canada has published some information on childhood cancer, it is based mostly on data from sources other than the Childhood Cancer Treatment and Outcome Surveillance System. Although this surveillance system has been collecting data since 1995, the first comprehensive report providing information on cases diagnosed in 1995 and 1996 is not expected until the fall of 1999.

**14.78** While individual bureaus periodically solicit feedback on the value of their dissemination activities (through consensus conferences, for example), LCDC has not formally evaluated the effectiveness of its dissemination activities — who uses the information, how they use it, and whether they find it timely. Such evaluations are necessary to ensure that efforts to disseminate surveillance information are directed appropriately and that other organizations and levels of government are using the information to improve the health of Canadians.

**14.79 Health Canada should ensure the timely dissemination of surveillance information to those who need to have it. The Department should identify who uses the information, how they use it, and whether they find it timely.**

***Department's response:*** *Agreed; implementation is under way. One of the goals in developing the National Health Surveillance Network is to improve the sharing and exchange of health information, and the analysis and dissemination of that information. As indicated above, this initiative is well advanced.*

*In addition, the Laboratory Centre for Disease Control intends to expand the "Disease Surveillance On-Line" database in the next fiscal year to include data on additional diseases. This will allow data obtained from the provinces and territories, Statistics Canada or other sources to be posted much earlier than information is made available in print.*

*A readership survey of* Chronic Diseases in Canada *will be conducted in the fall of 1999 to update information obtained from a 1992 client survey on the readership's profile, and to ascertain preferences regarding dissemination tools (print or Web) and the journal's content.*

*A detailed, formal evaluation of the Web site is planned for FY 2000–2001. The Internet-based "Canadian Health Network", to be implemented in 2000, will provide the public with enhanced access to quality information about health promotion and disease prevention to facilitate better personal decisions about health.*

**The Laboratory Centre for Disease Control has not formally evaluated the effectiveness of its information dissemination activities.**

## Progress in Filling Surveillance Gaps

**14.80** In 1995, as part of a commitment by Health Canada to strengthen its surveillance capacity, LCDC launched a public health intelligence reinvestment initiative. It was designed to enable LCDC to expand its surveillance networks in order to address certain gaps in the surveillance of diseases such as diabetes, cardio-respiratory diseases, tuberculosis, cancer, sexually transmitted diseases and perinatal diseases. We examined LCDC's progress in establishing surveillance systems in two of these areas, diabetes and heart disease and stroke.

### Development of a national diabetes surveillance system has been slow

**14.81** Diabetes is a major contributor to the burden of illness and health care costs in Canada. However, only limited national data on this disease are available. A national diabetes surveillance system would improve the situation, but its development has been slow.

**14.82** As early as 1986, the National Diabetes Task Force identified the collection of reliable data on diabetes as a priority. In 1995, the Diabetes Division was formed within LCDC. The concept of a national surveillance system on diabetes was put forward in 1996. A risk assessment prepared in March 1998 identified significant gaps in surveillance information on diabetes, and suggested action to take.

**14.83** It is important that LCDC begin work in this area, because existing data sources have significant limitations. For example, the National Population Health Survey and the Aboriginal Peoples Survey do not address this issue to the extent necessary and are limited by self-reporting and by sample size. As a result, reliable information on the extent of diabetes and its burden on health care is not available to assist in the development of prevention and control measures.

**14.84** The 1999 federal Budget provided $55 million to develop a Canadian diabetes prevention and control strategy over the next three years. We noted that the Diabetes Division has begun to work with Statistics Canada, the Diabetes Council of Canada, the Canadian Diabetes Association, the Canadian Institute for Health Information and provincial/territorial governments to develop a national diabetes surveillance system. This system, which is not expected to be operational until 2000, represents another positive step toward closing the gap in diabetes surveillance.

### A national surveillance system has not yet been developed for heart disease and stroke

**14.85** Heart disease and stroke remain the major causes of death, disability and illness in Canada. The Department recognizes that a health problem of the magnitude and complexity of heart disease and stroke needs a strong information base to determine how the individual, the family, the community and government can best respond effectively and efficiently. The core functions of LCDC's Cardiovascular Disease Division, created in September 1995, include national heart disease and stroke surveillance, risk assessments of factors associated with heart disease and stroke, and national prevention and control activities.

**14.86** LCDC has identified the need for up-to-date statistics on the number of people who suffer from heart disease and stroke and the deaths attributable to it. Such statistics are central to determining whether prevention and control efforts are working effectively. However, there is a time lag of approximately two to three years in the data, due mainly to data collection and refinement issues that need to be dealt with by the provinces and

territories, Statistics Canada and Health Canada.

**14.87** There is also a lack of good-quality national surveillance information on health outcomes related to heart disease and stroke, the risks influencing heart disease and stroke, and efforts at prevention, treatment and rehabilitation. LCDC has only recently begun surveillance work on behavioural risk factors.

**14.88** Health Canada is collaborating with other organizations, including the Canadian Institute for Health Information, Statistics Canada and non-government organizations, to develop an integrated surveillance system for heart disease and stroke. However, this is not expected to be fully operational until 2003.

**14.89 Health Canada should, in collaboration with other organizations, take steps to fill surveillance gaps by ensuring the timely development of national surveillance systems on chronic diseases such as diabetes, and heart disease and stroke.**

***Department's response:*** *Agreed; implementation is under way. For several years, the Laboratory Centre for Disease Control has been working with stakeholders to develop national comprehensive chronic disease surveillance systems. The National Diabetes Surveillance System (NDSS), the most advanced initiative, will be operational by 2000 and will become a model for the surveillance of other chronic diseases.*

## Current Efforts to Improve Health Surveillance

**14.90** Change initiatives are not new at the Health Protection Branch (HPB). We reported in 1995 (Chapter 4) and in our 1998 follow-up (Chapter 28) that the Branch had undertaken change initiatives since 1993. We expected that the Branch would have taken appropriate action to find solutions to identified problems in surveillance and related areas. We found that many efforts to effect change, including the recent transition initiative, have been directed to the right areas.

**14.91** The Health Protection Branch launched a three-year process of transition in August 1997. The purpose of the transition initiative is to help strengthen the Branch and its ability to better manage risks to the health of Canadians into the next century. The transition comprises five major components: legislative renewal, surveillance, science core, risk management framework and program development.

### Work has begun on strengthening Health Protection Branch's future surveillance capacity

**14.92** An important step toward strengthening and expanding the Branch's surveillance capacity is its support of an integrated national surveillance network for public health information. Such a network would integrate information from sources ranging from local to global. As part of the surveillance transition, an Office of National Health Surveillance has been created within the Branch to provide secretariat support for federal/provincial/territorial working groups. These include the National Health Surveillance Network Working Group and the Surveillance Integration Design Team. The objective of the Office and the working groups is to create an integrated national health surveillance network that will enable Canada to produce accurate and timely information for all levels of the public health system. The national health surveillance network is intended to provide an infrastructure for surveillance, but not content.

**14.93** Extensive consultations have been carried out with various stakeholders. In the fall of 1998, at the request of the federal/provincial/territorial deputy ministers of health, the Surveillance Integration Design Team

released a discussion paper on an integrated national health surveillance network for Canada. Consultations on the discussion paper were then held with provincial and territorial officials and non-government stakeholders across Canada, culminating in a national conference on the proposed national framework in March 1999.

Early concrete steps have been taken toward creating a national health surveillance network.

**14.94** The results of these deliberations were released in April 1999 as a proposal to develop an integrated national health surveillance network for Canada. The proposal suggests roles that each partner in the health surveillance network can and should play. It also outlines some of the key policies and co-ordinating mechanisms that are needed to provide a solid foundation for building an integrated network to meet the needs of all of the players while better serving the health of Canadians.

**14.95** Based on the proposal, the Department prepared a report and recommendations in June 1999 for consideration by federal, provincial and territorial deputy ministers of health. The proposal represents a significant step forward. An integrated network would do much to address a number of weaknesses that we have discussed in this chapter. For example, it would promote more complete, up-to-date and uniform data from which to produce health surveillance information on a number of diseases and injuries. We commend these efforts to improve national health surveillance. We also recognize that developing the network will present challenges to Health Canada in getting all players to work together. It is unclear when such an integrated national health surveillance network would be implemented, as there are no planned timeframes or action plans for implementation. It is paramount that all parties involved in this network remain committed to its implementation.

**Pilot projects are under way to improve access to data**

**14.96** We noted that early concrete steps have been taken toward creating a national health surveillance network. A series of pilot projects is being carried out to improve access to existing databases and the linkages among them. The projects are also intended to provide tools for analyzing and presenting information, and to speed up access to the information. For example, the Spatial Public Health Information Exchange (SPHINX) demonstration pilot in Alberta is testing procedures for accessing information that already exists in digitized health-related databases. Improving access to this information will help to strengthen national public health surveillance.

**Co-operation is essential to improving health surveillance**

**14.97** As we have noted, Health Canada shares responsibilities for surveillance with other jurisdictions. We recognize that this complicates its efforts to make the needed improvements in health surveillance. However, it is imperative that the Department impress upon the provinces and territories that improving surveillance is an urgent task, and it is in everyone's interest to resolve as quickly as possible the problems that are standing in the way of "getting on with the job".

## Performance Measurement and Reporting of Results

**14.98** There are several tools at LCDC's disposal to facilitate better management of surveillance activities. These include evaluation, performance measurement and risk assessment. Unlike other aspects of surveillance (which, to a large extent, rely on the work of outside organizations), applying these tools is within LCDC's control.

**14.99** Taken together and properly used, these tools provide distinct benefits

for an organization's management. They tell management what has worked to produce desired results and what has not; whether individual systems are cost-effective; and, in the case of LCDC, whether the systems and the resources required to operate them are focussed on the areas that pose the greatest risks to Canadians' health. In addition, these tools yield information that allows an organization to report publicly on the effectiveness of its health surveillance work.

**14.100** We expected that Health Canada would evaluate its surveillance systems to measure their effectiveness, including whether they are achieving their stated objectives. We also expected that it would have performance measures in place to help managers gauge the ongoing performance of surveillance systems, and that outcome measures as well as outputs would be emphasized. We expected that the Department would use evidence-based risk assessments to ensure that it concentrates its resources on the diseases and injuries that pose the greatest risk to public health. Finally, we expected public reporting on the effectiveness of surveillance activities.

**Few systems have been evaluated and there are no plans to evaluate others**

**14.101** LCDC has no formal plans to evaluate its surveillance systems. No resources have been identified to complete evaluations and few have been done.

**14.102** Only two of the seven established systems we examined had been evaluated — the Canadian Hospitals Injury Reporting and Prevention Program (CHIRPP) and the National Enhanced Cancer Surveillance System. The latter system was included in an evaluation of the Action Plan on Health and the Environment.

**14.103** An external committee evaluated CHIRPP in 1991, two years after the program had begun. The review recommended that both the system's representativeness and the quality of information on the cases be improved. The program has not been evaluated since. Therefore, it is not apparent whether LCDC has acted on the recommendations, whether the program has improved, or whether any new problems have arisen over the past seven years. Our audit, however, noted a number of weaknesses in CHIRPP (see paragraphs 14.69 to14.71) that suggest that Health Canada has not yet resolved all the problems identified in the 1991 review.

**14.104** The 1997 evaluation of the Action Plan on Health and the Environment assessed LCDC's progress in establishing a national enhanced cancer surveillance system with a focus on environmental risks. The evaluation found that LCDC had made progress in constructing various components of the surveillance system, but that various tasks, such as initial data gathering, had not been completed.

**14.105** In 1993, external consultants completed an evaluation of LCDC's activities. The evaluation focussed on issues such as LCDC's role and the relevance and quality of the expertise and services it provides to clients and partners. It found that most of LCDC's clients felt that its services and products were essential, but that there were delays in obtaining them. The findings indicated a lack of sufficient back-up expertise at LCDC during emergencies, and poor communication between LCDC and its clients. Significant changes have taken place at LCDC over the last six years, but no subsequent evaluation has been planned to determine whether and to what extent the weaknesses have been addressed.

**Need to develop appropriate indicators for measuring performance**

**14.106** Whereas evaluation is review that is carried out periodically, performance measurement involves the ongoing

measurement of inputs, outputs, and outcomes. Performance measurement helps managers know whether a surveillance system is on track. Central to measuring performance are performance indicators, which specify the terms in which performance or success will be measured. Performance indicators may be output-focussed, such as the number of seminars held or brochures distributed. Or they may be outcome-focussed, such as surveillance information used in program or policy decisions that lead to the desired reduction in the occurrence of diseases or injuries.

**14.107** LCDC has developed objectives for the surveillance systems that we reviewed. It has begun to develop a framework for better measurement of its performance, but it is not complete. LCDC has not yet finished developing indicators to measure performance that focus on outcomes as well as inputs. The performance indicators it has developed tend to be process- or output-oriented. For example, the Cancer Bureau lists items such as "client satisfaction" and "publication in scientific journals and other publications" as performance indicators of its childhood cancer program. As well, few indicators focus on specific surveillance systems.

**14.108** Until LCDC finishes developing its performance measurement framework and includes in it outcome-oriented performance indicators, it will have some difficulty knowing what works and what does not, and when to take corrective action.

### Only limited use of risk assessment

**14.109** Risk assessment is an important tool that can be used to direct surveillance effort to best advantage — that is, commensurate with the risk to public health that a disease represents. Risk assessment techniques can be used, for example, to determine the risks that one disease poses to public health compared with another. By using the results of risk assessment, management at LCDC can focus surveillance activities and resources more sharply on the diseases and injuries that pose the highest risk. In essence, then, risk assessment can be used to help ensure that effort is spent where it will have the most impact.

**14.110** We noted that the Advisory Committee on Epidemiology, working jointly with LCDC, uses a risk-based approach to select and prioritize communicable diseases that are to be reported nationally. As well, in 1995, after consultations and using criteria to rank the severity of surveillance gaps, the Department launched its public health intelligence reinvestment initiative. This included a greater focus on chronic disease surveillance.

**14.111** However, in the specific surveillance systems we examined, we found few cases in which a thorough risk assessment of individual diseases (as a prelude to surveillance) had been done to assess their risks in comparison with others and to outline options for action. An exception was the health risk report and recommended control strategy completed for diabetes, which included an epidemiological assessment, analyses of knowledge gaps and jurisdictional considerations, and a control strategy.

**14.112** Instead, most diseases considered to be candidates for surveillance are identified through formal and informal consultations rather than objective, evidence-based risk assessments. Through these consultations, the Department has identified major gaps in surveillance coverage (for example, chronic diseases such as musculoskeletal diseases, nervous system and mental disorders and skin and related diseases).

**14.113** The Health Protection Branch has taken initial steps to improve the way it manages risk. As part of its transition initiative, the Branch has recognized the need to consider not only the risks associated with individual diseases but

also their relative importance. As well, the Branch has recognized the need to improve the way it communicates risk issues to its clients and other stakeholders.

**Need for improved reporting of results to Parliament**

**14.114** LCDC reports to Parliament only limited information on the effectiveness of its surveillance systems and activities. We reviewed departmental Estimates/Plans and Priorities documents and Performance Reports for the last five years and found few references to either the rationale for the surveillance systems or their objectives and effectiveness. As well, the results of the 1993 LCDC evaluation were not reported to Parliament.

**14.115 Health Canada should strengthen the evaluation, performance measurement and reporting of results of its health surveillance systems and activities.**

***Department's response:*** *Agreed. Steps are being taken now to implement this recommendation.*

## Conclusion

**14.116** The success of national health surveillance depends largely on the ability of federal, provincial, territorial and local health departments and organizations to develop partnerships, to collaborate and to understand clearly what needs to be done to prevent and manage disease outbreaks, who should do it, and when and how it should be done.

**14.117** Health Canada has no formal arrangements with the provinces and territories covering the common standards and procedures for collecting and exchanging data on communicable diseases. In addition, there are few formal agreements or protocols for dealing with the entry into Canada of serious communicable diseases, disease outbreaks and threats to public health.

**14.118** We found weaknesses in the key surveillance systems that we looked at. The systems were not enabling Health Canada to effectively monitor communicable diseases such as influenza, AIDS, tuberculosis and food-borne diseases. There are significant gaps in surveillance information on certain chronic diseases such as cancer, diabetes, and heart disease and stroke. National surveillance information on childhood injuries does not yield a complete picture. In some cases, weaknesses in data collection lead to delays in the dissemination of surveillance information.

**14.119** Health Canada needs to strengthen its procedures to measure performance and report results. It also needs to make better use of risk assessment in its health surveillance activities.

**14.120** Work has begun on strengthening the Health Protection Branch's future surveillance capacity, including the proposal for an integrated national health surveillance network. Such a network would do much to address some of the weaknesses that we observed.

**14.121** We recognize that LCDC is not solely responsible for a number of these weaknesses. Nonetheless, the weaknesses need to be fixed, and LCDC needs to champion change by ensuring that all players work together to improve the surveillance on which Canadians rely to protect their health.

***Department's comments:*** *The federal government has launched an ambitious initiative to develop a National Health Surveillance Network. This is a complex undertaking that entails a significant collaboration between Health Canada and its provincial and territorial partners. The full impact of the initiative will not be realized until the entire Network is operational, but improvements are being made annually as components of the network are put in place.*



# About the Audit

## Objectives

The objectives of the audit were to determine whether:

- there are common standards and protocols to facilitate collaboration and sharing of information among all players in the health surveillance process;
- required surveillance systems are in place to provide timely and relevant information to anticipate, prevent and respond to health threats and emerging health risks;
- procedures to measure performance and report results are adequate;
- there is a rational basis for determining where and how health surveillance should be undertaken; and
- progress has been made in establishing solutions to identified problems.

## Scope

The audit examined Health Canada's surveillance activities relating to diseases, both communicable and non-communicable, and associated behaviour risk factors, as well as injuries. We examined surveillance systems designed to collect, analyze and disseminate information in order to anticipate, prevent and respond to health threats and emerging health risks. This included a detailed review of 10 of the approximately 40 functioning surveillance systems the Department maintains in the areas of communicable and non-communicable diseases and injuries. Taken together, the surveillance systems we reviewed covered diseases and injuries that pose significant threats to health and represent a significant economic burden to society. In addition, we examined Health Protection Branch transition initiatives relating to surveillance, risk management and legislative renewal.

We had extensive discussions with departmental staff, selected provincial and local health officials, other agencies and selected foreign national institutions involved in health surveillance activities. As well, we had discussions with representatives of the Canadian Food Inspection Agency. We reviewed various studies and reports published by Health Canada, provincial and local health agencies and other national health bodies, and other documentation.

The audit did not examine the management of risks to health relating to consumer goods, medical devices and therapeutic products. The audit did not cover diseases relating to animals.

The quantitative information in this chapter that has been drawn from government and non-government sources or departmental databases has been checked for reasonableness but has not been audited.

## Criteria

We expected that:

- all players in health surveillance would clearly understand Health Canada's role and responsibilities in the national health surveillance process;
- a full range of documented protocols and procedures would exist that indicate clearly what each player should do when a disease outbreak or health threat occurs;

- all players in the health surveillance process would use common standards and protocols for classifying, collecting and reporting data on diseases and injuries to ensure that all information is comparable across the country;
- Health Canada's surveillance systems for monitoring diseases and injuries would enable it to collect, analyze and disseminate all information necessary to help anticipate, prevent and respond to existing and emerging health risks;
- there would be procedures to measure the effectiveness of health surveillance activities and report results;
- Health Canada's health surveillance activities would be based on a sound risk-benefit approach and a rational priority setting framework; and
- appropriate action would be taken by Health Canada in establishing solutions to identified problems.

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# Chapter 15

## Management of a Food-Borne Disease Outbreak

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 15-5 |
| **Introduction** | 15-7 |
| Many players are involved in the investigation and control of food-borne disease outbreaks | 15-7 |
| Many young children were affected in a nation-wide outbreak of food-borne disease | 15-7 |
| Focus of the audit | 15-8 |
| Completeness of relevant information | 15-8 |
| **Observations** | 15-8 |
| Lack of timely exchange of information to identify scope of the outbreak | 15-8 |
| LCDC was not well prepared to manage a disease outbreak | 15-9 |
| Quick identification of contaminated food product | 15-9 |
| CFIA did not share certain distribution information with provincial public health officials | 15-10 |
| Further recalls were announced | 15-11 |
| Several plants were inspected in an effort to determine the source of contamination | 15-11 |
| Disagreement on the need to reinspect a plant | 15-12 |
| Lack of formal protocols and established procedures to investigate outbreak | 15-13 |
| Lack of transparency in post-outbreak reviews | 15-14 |
| **Conclusion and Recommendations** | 15-14 |
| **About the Audit** | 15-17 |

# Management of a Food-Borne Disease Outbreak

## Main Points

**15.1** In the spring of 1998, there was a nation-wide outbreak of a food-borne disease; it was one of the largest outbreaks of food-borne disease in Canadian history and involved the investigation of more than 800 reported cases across Canada. Over 80 percent of the affected were children under 15 years of age. At least 60 were hospitalized.

**15.2** Some important aspects of the response to the outbreak worked well, but others did not. The contaminated product was identified quickly and its removal from points of sale was started immediately after the issuing of a recall. However, there was a lack of timely exchange of information to identify the scope of the outbreak. There was also a lack of full co-operation among the agencies involved in the response to this outbreak. The Canadian Food Inspection Agency (CFIA) did not share certain distribution information when requested by provincial public health officials to assist in the investigation. In addition, the CFIA's abrupt decision not to lead one of the plant inspections resulted in confusion and unnecessary delay.

**15.3** A formal framework is needed that sets out clearly the roles and responsibilities of Health Canada's Laboratory Centre for Disease Control (LCDC) in relation to those of other participants, in order to guide the response to threats to public health. Many individuals could have avoided this illness had the federal and provincial health departments acted more quickly.

### Background and other observations

**15.4** The case described in this chapter illustrates many of the issues discussed in Chapter 14 on National Health Surveillance and the management of outbreaks and threats to public health. The audit looked at how federal and provincial agencies — Health Canada's Laboratory Centre for Disease Control and Food Directorate, the Canadian Food Inspection Agency, and provincial and local public health departments — responded to this nation-wide outbreak of a food-borne disease.

**15.5** Food-borne diseases have important implications because of the wide distribution of food products and the resulting potential for affecting very large numbers of people spread over wide geographic areas.

**15.6** The activities of the Laboratory Centre for Disease Control involve the timely investigation and control of disease outbreaks, often in collaboration with provinces and other federal agencies — in particular, with the Canadian Food Inspection Agency in the event of a disease caused by food. The CFIA is responsible for enforcement actions in food-related emergencies and is to take a lead role in investigations and co-ordination of food safety emergency responses. Health Canada's Food Directorate is responsible for assessing the effectiveness of the CFIA's food safety activities. Provincial and local medical officers of health have a legislative mandate to investigate disease outbreaks, and provincial laboratories provide laboratory services.

**15.7** We found that LCDC was not well prepared to manage disease outbreaks. It had no established operating procedures to respond to food-borne disease outbreaks. In addition, there were no formal protocols between Health Canada, the CFIA and the provinces that clearly defined procedures and the role of LCDC in relation to the roles of other participants in the investigation of disease outbreaks.

**15.8** There was a lack of transparency in the post-outbreak reviews undertaken by LCDC and by the CFIA. In such situations, particularly given that the cause of the contamination was never found, we believe it is in the interest of public health that all participants contribute to, and learn from, such reviews.

**Responses to our recommendations from Health Canada and the Canadian Food Inspection Agency are included in this chapter. Both Health Canada and the Canadian Food Inspection Agency concur with the recommendations and have agreed to take corrective action. In some cases, this action is already under way.**

## Introduction

**15.9** This chapter flows from our audit of National Health Surveillance, including the management of outbreaks and threats to public health (reported in Chapter 14). In this chapter, we examine the management of a recent outbreak of a food-borne disease. The scope of the examination extends beyond health surveillance to address the way Health Canada's Laboratory Centre for Disease Control (LCDC) and the Canadian Food Inspection Agency (CFIA) interacted with other participants in responding to the outbreak.

**15.10** This case was one of the largest food-borne disease outbreaks in Canadian history. It involved many provinces and agencies. Some aspects of the response to the outbreak worked well, particularly the quick identification of the contaminated product. However, other aspects did not work as well. The case illustrates many of the issues discussed in the chapter on National Health Surveillance, including the need for timely sharing of information, better collaboration and co-operation among federal and provincial agencies, and a formal framework that would clearly specify LCDC's role in relation to the roles of other participants in order to guide the response to threats to public health.

### Many players are involved in the investigation and control of food-borne disease outbreaks

**15.11** The core activities of the Laboratory Centre for Disease Control within Health Canada's Health Protection Branch (HPB) are national health surveillance, disease prevention and control. These activities involve the timely investigation and control of disease outbreaks, often in collaboration with provinces and other federal agencies — in particular, with the Canadian Food Inspection Agency in the event of a disease caused by food.

**15.12** Created in 1997, the CFIA is responsible for enforcing the *Food and Drugs Act* and other legislation covering all foods sold in Canada (foods as defined in the *Canadian Food Inspection Agency Act*). It is responsible for enforcement actions in food-related emergencies and has a lead role in co-ordination of emergency response and investigation of food-borne illness outbreaks.

**15.13** Health Canada, through its Food Directorate of the Health Protection Branch, establishes policies and standards for the safety and nutritional quality of food sold in Canada. It is also responsible for assessing the effectiveness of the CFIA's food safety activities.

**15.14** Provincial and local medical officers of health have a legislative mandate to investigate disease outbreaks, and provincial laboratories provide laboratory services.

### Many young children were affected in a nation-wide outbreak of food-borne disease

**15.15** Food-borne diseases have important implications because of the wide distribution of food products and the resulting potential for affecting very large numbers of people spread over wide geographic areas. Resolving an outbreak requires the timely identification of the disease, finding the cause of the outbreak, recalling and removing the food product, treating the infected, and preventing a recurrence. All the players thus need to work together, share information, act quickly to protect the health of the public and regard safety as a first priority.

**15.16** A nation-wide outbreak of a food-borne disease occurred in March and April 1998; it involved the investigation of more than 800 reported cases across Canada. Most of those affected were young children. LCDC indicated that likely many more were affected, possibly 10 times more. A number suffered severe gastroenteritis, and at least 60 were hospitalized. It was one of the largest

**A 1998 nation-wide outbreak of a food-borne disease involved the investigation of more than 800 reported cases across Canada.**

food-borne disease outbreaks in Canadian history.

### Focus of the audit

**15.17** We examined the way Health Canada and the Canadian Food Inspection Agency managed this outbreak in collaboration with other jurisdictions. The audit focussed on the identification of the outbreak and the communication of its occurrence, the investigation to determine the source and cause of the outbreak, the recall and removal of the contaminated food product, and post-outbreak review procedures. Further details on the audit scope, objectives and criteria are presented at the end of the chapter in **About the Audit**.

### Completeness of relevant information

**15.18** This audit required that we obtain information from a variety of organizations. Health Canada was fully co-operative and provided all of the information that we requested. The provincial and local organizations were also very co-operative in responding to our requests.

**15.19** Throughout much of the audit process, the Canadian Food Inspection Agency displayed a lack of willingness to provide us, on a timely basis, with the information that we required to do our work. However, CFIA officials did become more responsive in their efforts to supply us with information toward the end of the audit process, and confirmed that they had provided all available relevant information. In addition, CFIA officials advised us that they had not kept records of all key meetings and decisions held in the course of their investigation and that other, potentially relevant information had been lost prior to the commencement of the audit. Given these circumstances, we do not have our usual degree of assurance with regard to the completeness of the record of events.

## Observations

### Lack of timely exchange of information to identify scope of the outbreak

**15.20** The Laboratory Centre for Disease Control relies largely on the provinces and territories to report cases of communicable diseases. The data it receives include laboratory-confirmed cases, which are normally reported to it weekly by the provinces and territories. In addition, provincial laboratories often send specimens to national reference laboratories at LCDC to have the type of pathogen confirmed.

**15.21** In March 1998, the Province of Ontario's Central Public Health Laboratory in Toronto noted a substantial increase in the number of confirmed cases of *Salmonella* Enteritidis. From 6 March to 18 March 1998, 42 cases were confirmed, compared with an average of 51 confirmed cases in the entire month of March each year from 1993 to 1997. The cases were believed to be widely distributed throughout Ontario.

**15.22** On 18 March, the Central Public Health Laboratory notified the Public Health Branch of the Ontario Ministry of Health about the 42 cases. Given the information it had on 18 March, the Public Health Branch was in a position to inform LCDC that an outbreak was likely under way. Ontario Public Health Branch officials recognized this but elected to conduct further analysis. Their analysis showed that in the five- to nine-year-old age group, the number of cases was five times higher than normal. The results of this analysis were not shared with LCDC until 26 March, when LCDC called the first teleconference. No protocols or guidelines existed that would specify when or under what circumstances to advise LCDC of an outbreak.

**15.23** The confirmed cases were reported to LCDC only through the routine surveillance system, which did not have the capacity to provide an early

No protocols or guidelines existed that would specify when or under what circumstances to advise the Laboratory Centre for Disease Control (LCDC) of an outbreak.

signal of a significant increase in the number of cases.

**15.24** While Ontario was experiencing significantly more cases of *Salmonella* Enteritidis, similar cases started to show up in several other provinces. On 20 March, three Newfoundland children with severe gastroenteritis were seen in a St. John's hospital and specimens were sent for examination for *Salmonella* organisms. On the same day, the Newfoundland Public Health Laboratory confirmed a similar case in Gander. The provincial laboratory notified the provincial disease control office to alert other regions in the province to a possible outbreak.

**15.25** On 23 March, six more suspected cases of *Salmonella* Enteritidis were identified, mostly children in three Newfoundland communities. Newfoundland provincial public health officials believed a province-wide outbreak was occurring. The chief medical officer of Newfoundland placed a call on 25 March to LCDC in Ottawa. The Newfoundland provincial laboratory also sent specimens to LCDC's laboratory for confirmation of the type of *Salmonella*.

**15.26** Given the information it had on 18 March, Ontario was in a position to suspect an outbreak and alert LCDC. Ontario's failure to do so resulted in a delay of a full week in the start of the investigation into the outbreak.

**LCDC was not well prepared to manage a disease outbreak**

**15.27** The phone call to LCDC by the chief medical officer of Newfoundland did not produce a quick, smooth exchange of information. She did not know whom to call at LCDC. When contacted, LCDC officials were not sure who in their organization was responsible. No one in LCDC was formally tasked with managing food-borne disease outbreaks.

**15.28** After several calls, a LCDC epidemiologist in Guelph took responsibility for co-ordinating the outbreak investigation — on her own initiative, as no one at LCDC was formally tasked with co-ordinating action in outbreaks. There was also confusion in LCDC about who should be the spokesperson for Health Canada.

**15.29** We believe it is essential that all participants know whom to contact at LCDC when there is a disease outbreak and who is responsible for managing it. Not knowing can mean unnecessary delays in moving to protect the health of the public.

**Quick identification of contaminated food product**

**15.30** Despite the problems that we have described, it appears that the individuals involved worked well together and moved quickly to identify the contaminated food product.

**15.31** On 26 March, the first teleconference call among officials from LCDC, Ontario and Newfoundland confirmed that there was a similar outbreak in Ontario, with over 114 cases. During the discussion, Newfoundland reported a total of 22 probable cases in that province. After learning of the situation in Newfoundland, Ontario sent isolates to LCDC's laboratory for comparison of the type of *Salmonella*. On the same day, LCDC notified the CFIA in Ottawa of the outbreak.

**15.32** Once the various parties (LCDC, the CFIA, Ontario and Newfoundland public health officials) were brought together in a response team, the contaminated product was identified quickly. Health Canada, in collaboration with provincial public health officials, was responsible for conducting epidemiological investigations to determine the product responsible for the outbreak. The CFIA was responsible for conducting investigations to determine the cause of contamination. In addition, the

Ontario's failure to alert LCDC resulted in a delay of a full week in the start of the investigation into the outbreak.

The individuals involved appeared to work well together and moved quickly to identify the contaminated food product.

CFIA was responsible for enforcement actions, which included ensuring that food recalls were carried out by the food manufacturer as required and monitoring the effectiveness of the recalls.

**15.33** On 27 March, packaged lunch products were identified as a suspected food. On the same day, Newfoundland received test results from the federal laboratory confirming that the specimens belonged to the same type of *Salmonella*. The first public announcement of the food-borne illness was made in late afternoon that day by the Newfoundland health department. It issued a news release advising that there was an outbreak of *Salmonella* gastroenteritis in the province. The release noted that Ontario was experiencing a similar outbreak.

**15.34** Based on information from patients, provincial health officials and CFIA food inspectors started collecting suspected food samples from food outlets and shops in Newfoundland and Ontario. Testing began on 28 March in four laboratories.

**15.35** On 30 March, the Newfoundland laboratory provided a preliminary result: a likely positive for *Salmonella* in a lunch product. CFIA officials in Ontario relayed this information to the company that manufactured the lunch product. Company officials started to pull together distribution and production records on the product and shared the information with the CFIA.

**15.36** By 31 March, the joint collaborative effort was able to isolate the source of the food product. CFIA laboratories in Ontario and Nova Scotia confirmed that the cheese in the lunch product was contaminated with *Salmonella* Enteritidis. The CFIA considered a food recall to be clearly necessary. Health Canada supported the CFIA's decision.

**15.37** The CFIA could have forced the manufacturer to recall the food product or allowed the manufacturer to initiate a voluntary recall. In this case, the manufacturer decided to issue a voluntary class I recall of its products containing the implicated cheese, along with a national health hazard alert (a class I recall involves a situation in which the use of a product may cause serious adverse health consequences or death).

### CFIA did not share certain distribution information with provincial public health officials

**15.38** On 31 March, the company issued a recall of four of its products. The health hazard alert advised the public not to consume four of its lunch products because one of the cheese ingredients might contain the bacteria responsible for *Salmonella* infection. In a voluntary recall, the company is responsible for removing the product at points of sale. The CFIA is responsible for conducting an effectiveness check of the recall process.

**15.39** The CFIA undertook recall effectiveness checks to ensure that retail stores had been informed of the recall and the product removed from food outlets. This comprised telephone calls to consignees and some visits to retail outlets by CFIA staff. Officials told us that the recall effectiveness check was intended to cover 100 percent of the stores selling the product.

**15.40** The Ontario Ministry of Health had two concerns about risks to public health. First, it was concerned that the CFIA's recall effectiveness checks would not be carried out quickly enough. Second, it was concerned that about one third of the *Salmonella* cases being investigated in Ontario had no link to the suspected food product, and therefore an analysis of the distribution of the cheese (supplied by a different company) would help in the investigation.

**15.41** In an effort to address the first concern, the Ontario chief medical officer offered to have local public health officers

visit retail stores and help to ensure that the product was removed from sale immediately following the announcement of the recall.

**15.42** Ontario officials noted that the CFIA did not want the Ontario Ministry of Health to participate in this way. They informed us that they visited retail stores in spite of the CFIA's opposition. The value of the provincial participation was evident from the fact that the inspectors found a number of outlets with the product still on the shelves. For example, 14 of Ontario's 37 public health units reported that on 3 April the recalled product was still on the shelves of 134 stores.

**15.43** To deal with their second concern, Ontario Ministry of Health officials wanted to compare the distribution of reported *Salmonella* cases with the distribution of the cheese in question. Ontario officials informed us that they requested the distribution list of all the cheese made from the suspect source several times in late March and early April. However, the CFIA did not provide the information at that time. Several months later, the CFIA made the information available to Ontario, but by that time it was too late to be of assistance in the investigation.

**15.44** However, CFIA officials have a different recollection as to what occurred. They believe that there was a high degree of co-operation between CFIA staff and Ontario public health officials.

**Further recalls were announced**

**15.45** On 9 April, after discussions with the CFIA, the company that manufactured the lunch products issued a second voluntary class I recall, with a public warning, that included additional products. This was due to possible contamination of a different type of cheese contained in one of its lunch products that had not been included in the earlier recall. The recall was issued promptly by the manufacturer.

**15.46** Early in the afternoon of 13 April, the CFIA laboratory identified *Salmonella* in two cheese sticks sampled from one of the 13 lots of cheese at the factory of the company that had supplied the cheese to the lunch product manufacturer. All the cheese sticks made from this lot were on hold in the warehouse of this company. The implicated lot had also been used in one of the recalled lunch products.

**15.47** On 14 April, the CFIA recommended that the company that had produced the cheese take immediate action to recall the product from all levels of trade and issue a public announcement to all consumers. However, the company disagreed with this recommendation.

**15.48** On 15 April, the company finally agreed to issue a class II recall of three brands of its cheddar cheese products as a precautionary measure and to make a public announcement. (A class II recall, with or without a public warning, normally applies to a situation in which the use of a product may cause temporary adverse health consequences or where the probability of serious adverse health consequences is remote). The company issued a public advisory that afternoon.

**15.49** We noted that CFIA inspectors were still checking food outlets until late April. On 29 April, a Health Canada field epidemiologist involved in the investigation found eight packages of the recalled products still in a Mississauga store.

**Several plants were inspected in an effort to determine the source of contamination**

**15.50** In the course of the investigation, the CFIA inspected a total of eight food-processing plants. During these inspections, it performed environmental checks, among other things, and took numerous food samples for further testing at CFIA laboratories. Some plants were inspected more than once. On several

**Ontario officials informed us that they visited retail stores in spite of opposition by the Canadian Food Inspection Agency.**

occasions, the inspection team consisted of personnel from other agencies.

**15.51** After a number of inspections, nothing had been found that would allow a conclusion to be drawn as to the cause of the contamination. Concerns remained about the water quality at one of the plants where the cheese had originated.

Concerns remained about the water quality at one of the plants where the cheese had originated.

**Disagreement on the need to reinspect a plant**

**15.52** During an interagency conference call on 20 April, a decision was made to follow up at the cheese plant with an interagency team to be led by the CFIA. CFIA officials had previously inspected this plant on 3, 4, 6 and 14 April. The local public health unit also took water samples at this plant on 17 and 20 April.

**15.53** On 22 April, an interagency meeting chaired by the CFIA was held, and plans were drawn up for an interagency inspection of the plant, which was to take place the following day. The CFIA notified the company of the plan orally and by letter. Company officials contacted CFIA management and urged better co-ordination among the federal agencies involved in the ongoing investigation. In addition, they raised questions regarding the nature and purpose of the upcoming inspection of the plant, which was to be led by CFIA officials. However, no objections were raised to the reinspection or to CFIA involvement. The CFIA, following its standard practice, contacted its Minister's office to advise it of the situation.

The Canadian Food Inspection Agency decided that it would no longer lead the inspection of the plant.

**15.54** On 22 April, the president of the company wrote to the CFIA, Health Canada and its Minister, complaining about a lack of co-ordination of effort and communication among the federal agencies. He alleged that his company was being treated unfairly, and was experiencing serious and preventable disruption as a result of the lack of co-ordination between the CFIA and Health Canada.

**15.55** The president of the company also called the Minister responsible for the CFIA and followed the call with a letter. CFIA officials told us that the Minister's office had maintained that this file, as all others, would be handled according to normal operating procedures.

**15.56** We were told by CFIA officials that they responded orally to the company's letters to CFIA and their Minister and that there was no formal reply. The Minister of Health later responded that an outbreak of this nature was an extremely serious matter, requiring an intensive and thorough investigation, and that there were valid reasons for focussing on the company's manufacturing processes.

**15.57** CFIA officials told us that senior management decided, upon reviewing the file, that based on their analysis of previous inspections there was no further need for the Agency to inspect the plant. The Agency decided that it would no longer lead the inspection of the plant. In effect, it changed its role to one of assisting Health Canada in determining the cause of contamination, rather than maintaining a lead role in the investigation.

**15.58** Its partners, Health Canada and the provincial and local public health officials, persisted. They felt that there were sufficient reasons to have the plant reinspected.

**15.59** Ontario public health officials and Health Canada decided to go ahead with the inspection. However, leading it was not within Health Canada's jurisdiction. In the absence of CFIA's leadership, the Ontario Ministry of Health had to call upon the local medical officer of health to lead the inspection.

**15.60** One result of this confusion over who would lead the inspection was that it was delayed for one day. The plant had been in operation on 21–22 April. The company closed the plant for renovations beginning on 23 April. Therefore, when

the inspection went ahead on 24 April, the plant was not in operation. Officials from the provincial and local public health departments, the provincial food inspection branch, Health Canada and the CFIA visited the plant. However, the two CFIA representatives indicated to the other participants that they were there as "resource people" and would not write or prepare any CFIA report on the inspection. One of the CFIA representatives advised us that she was told by her manager to offer technical support and answer questions only.

**15.61** The inspection revealed contamination in the plant's water supply and identified several other opportunities for contamination of cheese. The team concluded that the water at the time of the inspection was not potable. Although the water was mainly used for cleaning, nevertheless the plant was ordered by local public health and CFIA officials to remain closed until a water disinfection system could be installed. However, the investigation could not determine the cause of the contamination of the cheese.

**15.62** Once the inspection was completed, it was the provincial and local officials who prepared the reports. CFIA representatives, however, assisted in a technical review of the inspection report and participated in the briefing of company officials on the results of the inspection.

**15.63** However, officials had differing recollections as to what had occurred and what their respective roles had been. While all of the other participants maintained that CFIA officials had not actively participated in the inspection, CFIA officials claimed that they had.

**15.64** The CFIA's withdrawal as the lead for the inspection resulted in unnecessary delay and jurisdictional confusion among participants. It also hampered their collaboration. We believe it is vital that any threat to public health be investigated co-operatively.

**Lack of formal protocols and established procedures to investigate outbreak**

**15.65** At the time of the outbreak, LCDC had no established operating procedures to respond to food-borne disease outbreaks. The action it took was largely ad hoc. A draft emergency response plan existed at LCDC but was not consulted by those directly involved in the investigation.

**The action that LCDC took was largely ad hoc.**

**15.66** As noted in paragraph 14.38 of Chapter 14, several memoranda of understanding have been established between Health Canada and the CFIA with respect to food safety. At the time of the outbreak, however, there were no formal protocols between Health Canada and the CFIA and the provinces that clearly defined procedures and the role of LCDC in relation to the roles of other participants in the investigation of disease outbreaks.

**15.67** As mentioned in paragraph 14.39 of Chapter 14, a food-borne illness response protocol is currently being developed by Health Canada, the CFIA, and provincial/territorial governments.

**15.68** Officials told us that they expect that the protocol will describe the roles and responsibilities of the organizations and provide a framework for a co-ordinated response to food-borne disease outbreaks. They anticipate that this will result in a more co-operative and rapid response to these outbreaks.

**15.69** Officials also told us that Health Canada and its partners recognize the importance of timely exchange of information and notification of outbreaks of food-borne diseases. Early concrete steps have been taken toward creating a national health surveillance network. A series of pilot projects is being carried out to improve access to existing databases and the linkages among them. For

example, the Canadian Integrated Public Health System (CIPHS) is designed to provide data communication links between laboratories and public health officials on a "real time" basis. Officials anticipate that this system can help reduce the time it takes to recognize and communicate the existence of potential outbreaks.

**Lack of transparency in post-outbreak reviews**

**15.70** The poor communication and lack of formal arrangements indicate a clear need for the participants to work better as a team. In addition, there were few formal records kept of discussions and decisions made at interagency teleconferences during the investigation. A post-outbreak review was vital to ensure that lessons were learned and that such a situation would not happen again.

LCDC organized a post-outbreak review meeting but the Canadian Food Inspection Agency declined to participate.

**15.71** LCDC organized a post-outbreak review meeting on 11 May 1998 in an effort to learn how the management of an outbreak such as this one could be improved. However, the CFIA declined to participate. It informed us that there were two reasons for that decision. First, it noted that its investigation was still ongoing at that time, and that a post-outbreak review would be premature. Second, it was concerned that anything its officials might say at such a meeting could be used in any potential lawsuit.

**15.72** The post-outbreak review proved to be of limited value. LCDC did not circulate the minutes of the meeting. Nor did it provide any of the participants with a summary of the lessons learned.

**15.73** The CFIA held its own post-investigation review on 10 December. This was strictly an internal meeting, and none of the other agencies was invited. The goal was to examine the investigation and recall of the food product in order to improve investigations and emergency responses within the CFIA. The agenda for this meeting stated that the participants would discuss, among other things, the recall reality, chronology of events, investigation overview, what went well and areas for improvement, strategy development, and recommendations. However, CFIA officials told us that the meeting was not specifically for the purpose of discussing the outbreak, and there were no minutes of discussion relating to this outbreak. It is not clear how lessons could be learned if they were not documented or communicated.

**15.74** In such situations, particularly given that the cause of the contamination was never found, the value of a lessons-learned review cannot be underestimated. It is in the interest of public health that all participants contribute to, and learn from, such reviews.

## Conclusion and Recommendations

**15.75** This nation-wide outbreak was one of the largest and most serious food-borne disease outbreaks in Canadian history. More than 800 cases across the country were investigated; over 80 percent of them involved children under 15 years old. Many suffered severe diarrhea, and at least 60 were hospitalized. Many more might have suffered had the various federal and provincial agencies not identified the contaminated product. However, many individuals could have avoided this illness had the federal and provincial health departments acted more swiftly and co-operatively.

**15.76** This case illustrates the need for formal arrangements that clearly set out the role and responsibilities of LCDC in relation to those of other participants in handling a nation-wide threat to public health.

**15.77** Other areas where improvement is needed include the ability of federal and provincial organizations to work together

co-operatively and to share information in a timely manner. Specifically, there is a need for prompt notification about a possible outbreak and a timely exchange of information to support an investigation into the outbreak.

**15.78 Health Canada should clearly identify, and communicate to other participants, who is to be called in the event of a suspected outbreak of food-borne disease and who is responsible for managing the response.**

***Health Canada's response:*** *Implemented. The Roles and Responsibilities Framework, which establishes the specific accountabilities of Health Canada and the Canadian Food Inspection Agency, was revised in June 1999.*

*In addition, Health Canada has developed a "Food-borne Illness Outbreak Response Protocol" in collaboration with the Canadian Food Inspection Agency and with provincial and territorial governments. The Protocol is a formal arrangement detailing Health Canada's role and responsibilities in relation to its partners and will result in more co-ordinated and rapid responses to food-borne outbreaks.*

*Operational procedures for Health Canada staff, with contact names and numbers and a flow diagram to aid in co-ordinating emergency responses, is being completed and will be available by mid-September 1999.*

**15.79 Health Canada should work with provinces and territories to ensure the timely exchange of information and proper notification about interprovincial outbreaks of food-borne diseases.**

***Health Canada's response:*** *Agreed; implementation is under way. The "Food-borne Illness Outbreak Response Protocol" provides for the rapid exchange and evaluation of information between parties to ensure prompt notification and identification of outbreaks.*

*In addition, in the context of developing the National Health Surveillance Network, federal/provincial/territorial deputy ministers of health have endorsed collaborative ventures such as the Canadian Integrated Public Health System (CIPHS), a project under the National Health Surveillance Infostructure (NHSI). A pilot phase of this initiative, designed to link laboratories with public health officials, will be implemented in British Columbia by 31 March 2000. When fully operational, this system will significantly reduce the time necessary for the recognition and communication of potential outbreaks.*

**15.80 Health Canada and the Canadian Food Inspection Agency should carry out their respective roles and responsibilities collaboratively with other participants.**

***Health Canada's response:*** *Agreed. As indicated in the response to the recommendation in paragraph 15.78, the implementation of the "Food-borne Illness Outbreak Response Protocol", developed by Health Canada and its partners, will result in more co-ordinated and rapid responses to food-borne outbreaks.*

***Canadian Food Inspection Agency's response:*** *Agreed. In partnership with Health Canada, the Agency updated the agreement on roles and responsibilities addressing food emergency response, in June 1999. In addition, the Agency, Health Canada and all provinces and territories have set out working procedures in the "Food-borne Illness Outbreak Response Protocol", which enhances the response of the partnership to food emergencies. The Agency is also an active participant in the Canadian Food Inspection System Implementation Group, which seeks to harmonize federal, provincial and territorial food inspection systems.*

**15.81 Health Canada and the Canadian Food Inspection Agency should ensure that they maintain**

**appropriate records of key meetings and decisions.**

***Health Canada's response:*** *Implemented. Health Canada now routinely records minutes of all food-borne outbreak operational meetings as well as "lessons learned" from post-outbreak review meetings.*

***Canadian Food Inspection Agency's response:*** *Agreed. The Agency has recently realigned responsibilities for food safety emergency response within the Office of Food Safety and Recall. One of the primary responsibilities of this Office is to maintain records of operational meetings and decision-making processes pertaining to food emergencies.*

**15.82 Health Canada and the Canadian Food Inspection Agency should ensure that an appropriate review is conducted following an outbreak of food-borne disease. Such a review should include all participants involved in the handling of the outbreak, and lessons learned should be documented and communicated to all participants in a timely manner.**

***Health Canada's response:*** *Agreed and implemented. The "Food-borne Illness Outbreak Response Protocol" provides that a post-outbreak review be conducted following national and international outbreaks or outbreaks that are unusual in nature involving a rare or unusual infectious agent.*

***Canadian Food Inspection Agency's response:*** *Agreed. A framework is provided, within the Protocol, for the review of food-borne disease outbreaks in a collaborative manner. The review process described encourages the development of specific recommendations that will allow all participants and organizations to benefit through their application as appropriate. In instances where other partners are not involved in recalls, the Office of Food Safety and Recall undertakes internal reviews, with a view to improving Agency management of food emergencies, and thus reducing risk for Canadians.*

***Health Canada's overall comments:*** *Health Canada's review of this incident helped to identify areas for further improvement in the management of food-borne disease outbreaks, and the lessons learned are being applied. The experience of the episode has also contributed to the development of a national surveillance strategy, and the government has since announced, in the 1999 Budget, a significant investment in food safety.*

***Canadian Food Inspection Agency's overall comments:*** *The Canadian Food Inspection Agency is committed to enhancing the effectiveness of Canada's food safety system and improving on the progress made in recent years to consolidate the various inspection systems into a single agency. This includes management of food-borne disease outbreaks. As noted in its responses to the preceding recommendations, the Agency has implemented changes to its management and operating procedures to address the concerns raised in this chapter.*

*The Agency successfully managed 257 food recalls in 1998–99, compared with 165 the previous year. Many of these recalls involved a number of federal, provincial and municipal agencies. This multi-jurisdictional process plays a significant role in protecting the health of Canadians. The Canadian Food Inspection Agency is committed to working with its partners to contribute to safe food and to protect Canadian consumers.*



# About the Audit

## Objectives

The objective of the audit was to assess the adequacy of the management of a food-borne disease outbreak by Health Canada and the Canadian Food Inspection Agency, in collaboration with other jurisdictions.

## Scope

The audit examined a 1998 nation-wide outbreak of food-borne disease and how it was managed by Health Canada and the Canadian Food Inspection Agency, in collaboration with provincial and local health authorities. Specifically, we examined the activities related to the identification and communication of the outbreak, the investigation to determine its source and cause, the recall and removal of the contaminated food product, and the post-outbreak review. We had extensive discussions with departmental staff at Health Canada and officials at the Canadian Food Inspection Agency as well as selected provincial health officials directly involved in the investigation and control of the outbreak.

## Criteria

We expected that:

- all participants would clearly understand the roles and responsibilities of Health Canada and the Canadian Food Inspection Agency in the event of a food-borne disease outbreak;
- documented protocols and procedures would exist that indicate clearly what each participant should do when a national or interprovincial outbreak of food-borne disease occurs;
- Health Canada's surveillance systems for monitoring diseases would enable it to collect, analyze and disseminate all information necessary to help anticipate, prevent and respond to food-borne disease outbreaks;
- all participants involved in managing and investigating an outbreak would work together, share information, and act quickly to protect the health of the public; and
- all participants would contribute to, and learn from, post-outbreak reviews.

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 16
Revenue Canada – Goods and Services Tax: Returns Processing and Audit

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

## Chapter 16

Revenue Canada – Goods and Services Tax:
Returns Processing and Audit



September 1999

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# Chapter 16

## Revenue Canada

## Goods and Services Tax: Returns Processing and Audit

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 16–5 |
| **Introduction** | 16–7 |
| GST in general | 16–7 |
| Returns processing | 16–7 |
| Pre-payment audits | 16–8 |
| Post-payment audits | 16–9 |
| Focus of the audit | 16–10 |
| **Observations and Recommendations** | 16–10 |
| **GST Returns Processing** | 16–10 |
| GST processing centre has improved its efficiency | 16–10 |
| The use of performance measures and benchmarking for GST processing is limited | 16–11 |
| Reliability and timeliness of performance information are deficient | 16–12 |
| Better performance measures will help manage interest costs and improve service to registrants | 16–13 |
| GST returns processing is being decentralized | 16–15 |
| **GST Pre-Payment Audit Program** | 16–16 |
| Pre-payment audits are an essential part of Revenue Canada's GST enforcement activities | 16–16 |
| Revenue Canada can do more to improve the effectiveness of its automated validity checks | 16–17 |
| Delays in reviewing and auditing rejected refund claims add to interest costs and reduce service to registrants | 16–19 |
| There is a need for up-to-date procedures to review refund claims | 16–20 |
| **GST Post-Payment Audit Program** | 16–21 |
| Better data and tools would improve Revenue Canada's audit selection process | 16–21 |
| More attention needs to be given to audit planning | 16–23 |
| There are areas of strength in audit performance | 16–23 |
| Some aspects of audit performance require improvement | 16–24 |
| **Support for the GST Audit Programs** | 16–28 |
| Staffing and training needs | 16–28 |
| Information needs | 16–28 |
| Control over audit files | 16–30 |
| **Reporting on Performance** | 16–30 |
| **Conclusion** | 16–30 |
| **About the Audit** | 16–32 |
| **Exhibits** | |
| 16.1 Processing and Pre-Payment Audit – Summerside Tax Centre | 16–8 |
| 16.2 Pre-Payment and Post-Payment Audits – Tax Services Offices | 16–9 |
| 16.3 GST Administration at Revenue Canada | 16–10 |
| 16.4 Average Time to Process Documents – 1995–96 to 1998–99 | 16–11 |
| 16.5 Fraud Case Illustrating the Importance of Pre-Payment Audits | 16–17 |
| 16.6 GST Credit Returns for 1997–98 | 16–18 |
| 16.7 Example of a Good Post-Payment Audit | 16–24 |
| 16.8 Example of a Post-Payment Audit Requiring Improvement | 16–25 |

# Revenue Canada

## Goods and Services Tax: Returns Processing and Audit

## Main Points

**16.1** We found that Revenue Canada's Summerside Tax Centre, until recently its sole GST processing centre, has steadily become more efficient. It has streamlined several processes, enhanced its error correction procedures, reduced unit costs and improved the timeliness of its processing operations. As a prelude to decentralizing the processing of GST returns, Revenue Canada further simplified its processing procedures. The results of a pilot test point to further efficiency gains.

**16.2** At present, standards for returns processing tend to place insufficient emphasis on quality, accuracy, timeliness and unit cost, and the use of performance information is hampered by problems with the availability and reliability of data. Better performance measures would help to manage interest costs and improve service to registrants.

**16.3** Revenue Canada can do more to improve the performance of its set of automated validity checks. These checks are the cornerstone of its pre-payment audit program. However, they are not particularly discriminating in their initial targeting of inappropriate refund claims. Revenue Canada also needs to consider reviewing and auditing returns on which refunds are not requested at the same time as it conducts pre-payment audits of refund requests.

**16.4** Many of Revenue Canada's post-payment audits consume too many staff hours and go on for too long. Revenue Canada needs to help its auditors shorten their audit times by providing closer supervision and by encouraging better planning, execution and control of audit work. Audit performance may also be improved by better selection of registrants for audit.

### Background and other observations

**16.5** The introduction of the Goods and Services Tax (GST) in 1991 had a huge impact on Revenue Canada's activities. The Department had to develop a completely new processing operation and techniques to verify the accuracy of the returns submitted by almost 2 million registrants, ranging from small entrepreneurs to multinational corporations.

**16.6** In 1993, Revenue Canada opened a new tax centre in Summerside, Prince Edward Island to process all GST returns and rebate forms from non-Quebec registrants. (The ministère du Revenu du Québec administers GST processing and audit of Quebec registrants.) The Summerside Tax Centre employs the equivalent of about 660 employees and has an annual operating budget of about $28 million.

**16.7** Revenue Canada now processes about 5.5 million GST returns each year, as well as 200,000 domestic rebate forms and 3 million remittances from GST registrants.

**16.8** The Department has begun to decentralize a portion of its GST processing activities to tax centres across the country. The processing of rebate forms will continue to be done in Summerside.

**16.9** While, in general, GST returns processing is a tax centre activity, Revenue Canada's audit programs are performed by auditors in tax services offices across the country. There are two major audit programs. The first is the pre-payment audit program, which accounts for about 25 percent of auditor time. After the data have been processed but before refunds are issued, Revenue Canada applies a variety of automated validity checks to ensure that requests for refunds are appropriate. The checks are designed to capture the requests with the highest risks of non-compliance. The captured refund claims are sent electronically to tax services offices across Canada for review and, in some cases, for audit. In 1997–98, the GST pre-payment audit program resulted in assessments of about $165 million.

**16.10** Revenue Canada also performs post-payment audits. These audits account for about 75 percent of auditor time and focus not only on particular returns but also on registrants with the highest risk of non-compliance. In 1997–98, this work resulted in assessments of about $355 million.

**16.11** We examined the efficiency and effectiveness of the GST returns processing and audit functions. The efficient and effective use of resources is important because it has a direct impact on protecting the public purse and improving service to registrants.

**Revenue Canada's responses to our recommendations are included in this chapter. The Department is in agreement with the seven recommendations, and its responses describe a number of actions that have been completed or are in progress to deal with them.**

## Introduction

### GST in general

**16.12** The GST is a multi-stage sales tax levied on taxable goods and services. "Multi-stage" means that the GST applies on each exchange of taxable goods and services, from the initial producers/suppliers through intermediate producers/suppliers to consumers. To ensure that the value added at each stage of the supply chain is taxed only once, a mechanism exists by which suppliers can obtain a refund of GST paid on their purchases. (Suppliers of exempt goods and services are exceptions to the rule; they are effectively treated as consumers.) A claim for recovery of GST paid on a business input is known as an "input tax credit."

**16.13** GST registrants must submit returns to Revenue Canada on a monthly, quarterly or annual basis, depending on their sales volumes. GST charged to customers and input tax credits claimed on purchases are both recorded on the return. If the total GST charged by a registrant exceeds the input tax credits claimed, the registrant is expected to remit the excess to Revenue Canada. This is known as a "debit return." If input tax credits claimed exceed the GST charged, the registrant seeks a refund from Revenue Canada. This is known as a "credit return."

**16.14** Depending on the nature of their operations and their circumstances, registrants may also be eligible for various rebates. For example, municipalities are eligible for a rebate designed to lower the effective rate of GST applied to them. Rebate entitlements may be included in GST returns and, if they are large enough to offset the net GST otherwise payable, they will produce a credit return. In other cases, rebate entitlements are claimed on a separate form.

**16.15** In May 1999, there were approximately 2,411,000 active GST registrants. Revenue Canada administers the GST for the approximately 1,925,000 registrants outside Quebec. Under a 1991 agreement between the Government of Canada and the Government of Quebec, the ministère du Revenu du Québec administers the GST on behalf of Revenue Canada for approximately 486,000 registrants in Quebec. The ministère uses Revenue Canada's guidelines and policies but produces its own audit strategies and administrative procedures. The GST administered by the ministère is recorded in Revenue Canada's databases.

Revenue Canada administers the GST for the approximately 1,925,000 registrants outside Quebec.

**16.16** The Harmonized Sales Tax (HST) collected in three of the Atlantic provinces is an integral part of the GST program. For simplicity, in this chapter the term GST also includes HST.

### Returns processing

**16.17** The processing of GST returns and rebate forms begins when incoming mail is opened and sorted by type of document (see Exhibit 16.1). At this point, the documents are identified and checked for completeness and special conditions, such as attached correspondence and payments. The returns and forms are placed in batches and sent for document preparation and data capture. Information from the returns and forms goes into the GST mainframe computer system. The documents with errors go to the error corrections section. There, to the extent possible, errors such as incomplete returns, incorrect registrant names and business numbers, incorrect reporting periods, and mathematical errors are corrected. At times, in order to obtain correct information, departmental officers contact the registrant.

Revenue Canada has begun to decentralize GST processing.

**16.18** Until recently, Revenue Canada's Summerside Tax Centre was responsible for processing all GST returns and rebate forms sent in by non-Quebec registrants. Revenue Canada has begun to decentralize a portion of its GST

processing activities to tax centres across the country. Rebate forms will continue to be processed in Summerside.

Automated validity checks select about 30 percent of the credit returns and rebate forms; about 97 percent of the items selected are subsequently waived.

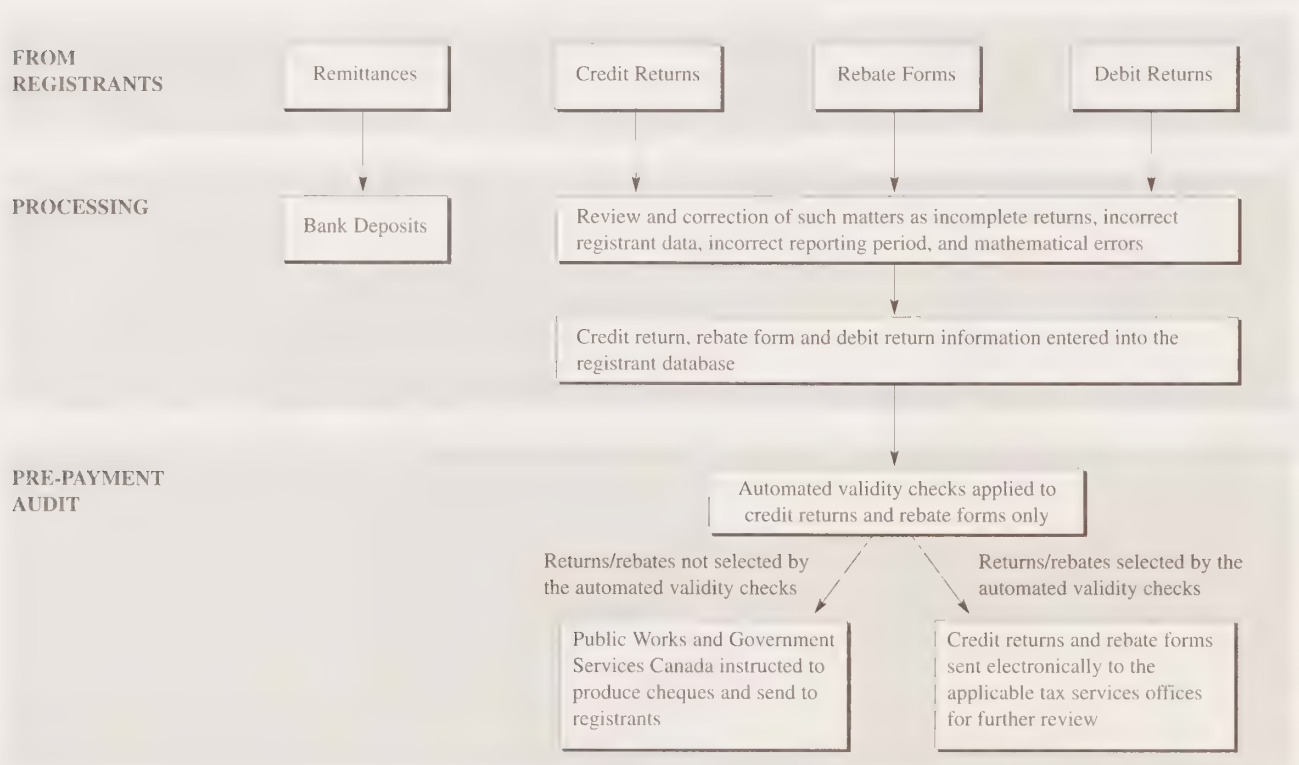
### Pre-payment audits

**16.19** After data from GST credit returns and rebate forms have been captured in the mainframe computer system, a series of automated validity checks is applied to the data (see Exhibit 16.1). These checks are intended to detect credit returns and rebate forms that may not comply with legislation or that may warrant investigation for some other reason. In other words, automated validity checks are based on the Department's assessment of risk associated with credit returns and rebates, and reflect its policy of periodic scrutiny.

**16.20** Automated validity checks select about 30 percent of the credit returns and rebate forms. These items are automatically referred to tax services offices across Canada according to the registrant's location (see Exhibit 16.2). There, a departmental officer brings up on a computer screen information about the selected items. The officer examines each item, and considers such factors as industry type, prior filing history and prior audit results. The officer then decides whether to pay the amount claimed (called "waiving" the item) or to conduct a more in-depth examination. About 97 percent of the items are waived. Generally, for the approximately 3 percent of items requiring further examination, an officer contacts the registrant to ask for more information and/or documentation. If satisfied, the officer approves the item for

Exhibit 16.1

**Processing and Pre-Payment Audit – Summerside Tax Centre**



payment; if not satisfied, the officer adjusts or rejects the item.

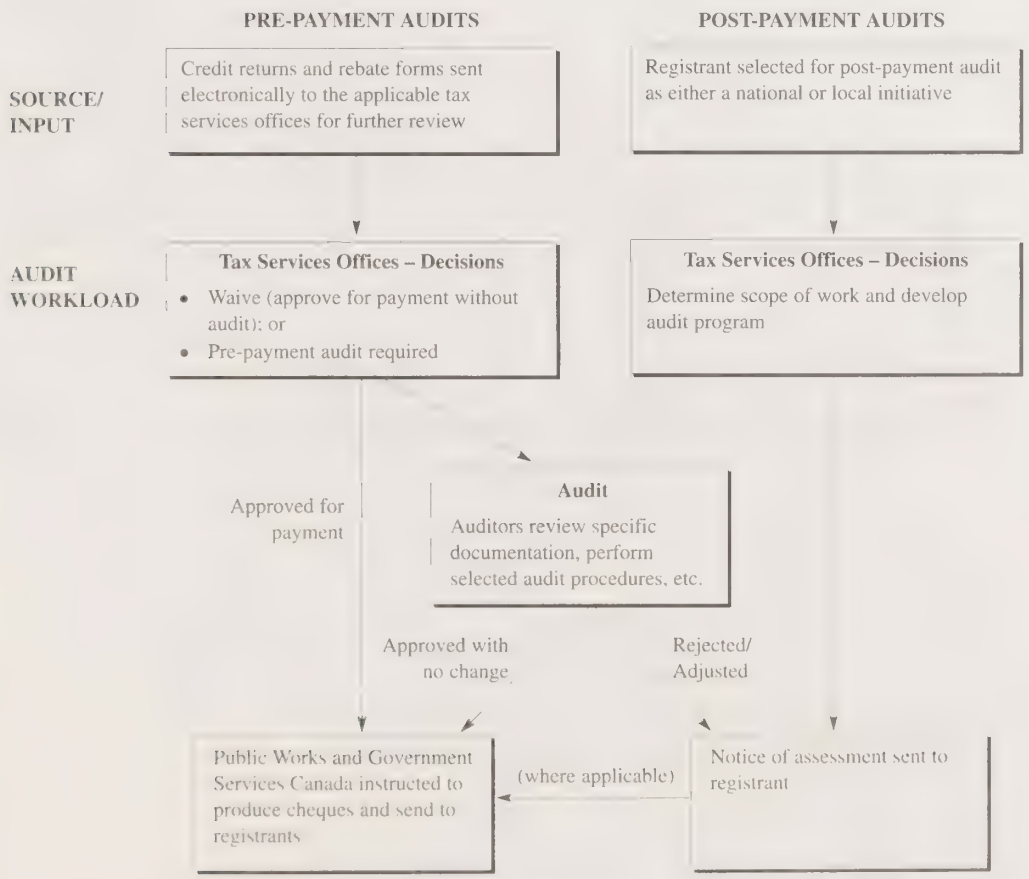
### Post-payment audits

**16.21** Pre-payment audit activity is aimed at preventing inappropriate payment of refunds claimed on credit returns and rebate forms. This means that the activity is focussed on detecting overstated or ineligible input tax credits and rebates. However, Revenue Canada also wishes to find other kinds of non-compliance with the many requirements of the *Excise Tax Act*, and to find problems with refunds that were paid in the past. This is the purpose underlying the post-payment audit program.

**16.22** Post-payment audits are handled by the tax services offices (see Exhibit 16.2). Relying heavily on their knowledge of the registrant population, external sources, leads from other areas of the Department — for example, pre-payment audit or income tax — and analysis of departmental databases, teams of post-payment auditors select registrants for examination. They normally select registrants who are expected to represent a high risk of non-compliance.

Exhibit 16.2

**Pre-Payment and Post-Payment Audits – Tax Services Offices**



In 1997–98, the GST audit programs resulted in assessments of about $520 million.

**16.23** In 1997–98, the GST pre-payment and post-payment audit programs resulted in assessments of about $520 million. The net revenue assessed was approximately $624 per direct audit hour.

### Focus of the audit

**16.24** Exhibit 16.3 illustrates a simplified GST administration framework patterned on Revenue Canada's official activity structure. Our audit examined the efficiency and effectiveness of Revenue Canada's GST returns processing and audit activities. Further details are found at the end of the chapter in the section **About the Audit**.

## Observations and Recommendations

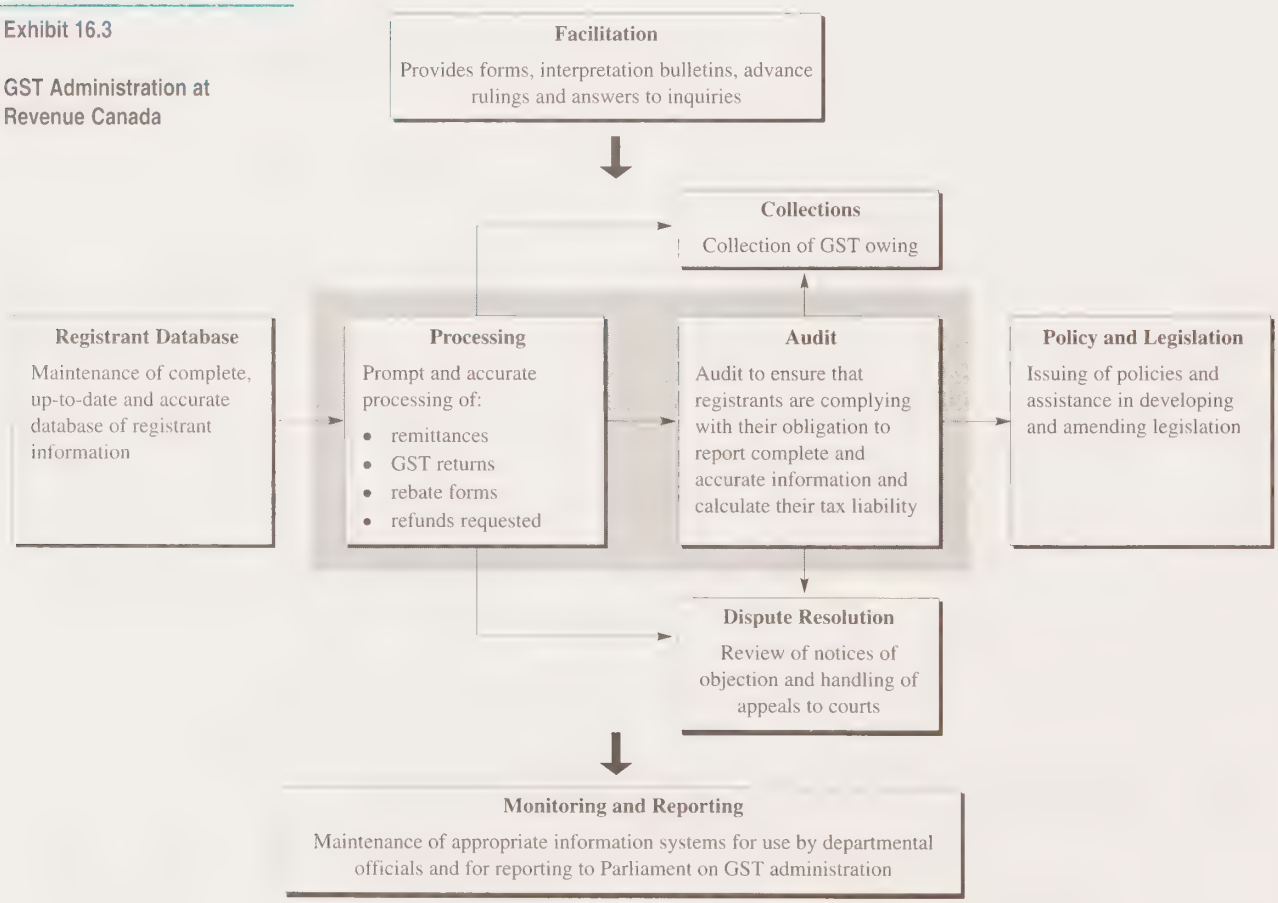
### GST Returns Processing

#### GST processing centre has improved its efficiency

**16.25** The GST document processing facility, located in the Summerside Tax Centre, started operations in October 1993. In 1998–99, the Centre processed about 5.5 million GST returns, 200,000 domestic rebate forms, and 3 million remittances. It employs the equivalent of about 660 full-time employees, and costs about $28 million a year to operate. This includes the

Exhibit 16.3

GST Administration at Revenue Canada




Our audit dealt primarily with the shaded boxes. We did not audit the processing of remittances.

equivalent of about 65 full-time employees and $1.4 million for income tax and excise tax processing.

**16.26** GST registrants have to file returns monthly, quarterly or annually, depending on their sales volumes. Returns are generally due toward the end of a month, resulting in 12 peak volumes a year, with higher peaks for the quarterly and annual periods. To accommodate this fluctuation, the Department must be flexible when allocating resources. We found that the rate at which documents are processed varies during the year but, as noted in Exhibit 16.4, about 90 percent of the documents get processed within 16 days and most of the remaining workload is processed in the next 45 days. The percentage of transactions processed within 16 days has generally increased.

**16.27** Managers and employees in Summerside and at headquarters have worked together to streamline several workflows. Efficiency gains have been made in several areas: mail extraction processes have improved; redundant document preparation work has been eliminated; data capture methods have been improved; and error correction procedures have been enhanced.

**16.28** We calculated that the unit cost of processing a standard return that has no errors fell from about $0.66 in 1995–96 to about $0.37 in 1998–99. Similarly, for returns accompanied by a payment but containing errors, the unit cost of processing fell from approximately $3.48 in 1995–96 to about $1.91 in 1998–99. Taking 1998–99 document volumes and using the 1995–96 and 1998–99 unit costs, we calculated that efficiency gains between the two years amounted to about $2 million.

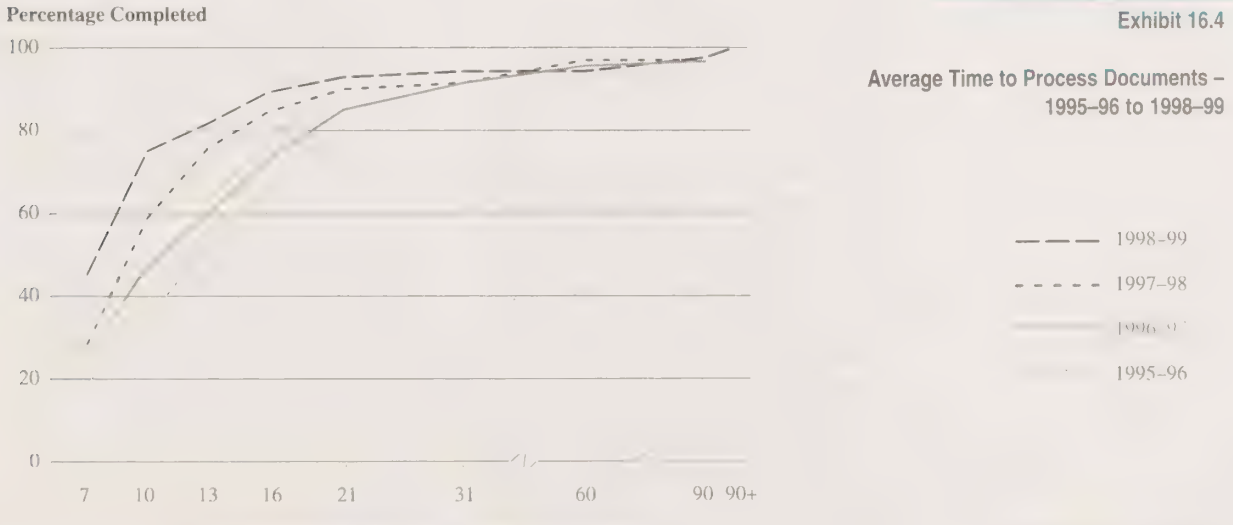
Efficiency gains have been made in several areas.

### The use of performance measures and benchmarking for GST processing is limited

**16.29** Good management of GST returns processing involves handling a given volume of documents according to specified standards for quality, accuracy, timeliness and unit cost. At present, Revenue Canada has a lot of historical information on volumes of production, but less data on quality, accuracy, timeliness and unit cost of processing. Although information on cost and production quantity exists in tax centres and at headquarters, management does not take full advantage of it to optimize the use of resources and further improve efficiency.

Exhibit 16.4

**Average Time to Process Documents – 1995–96 to 1998–99**




Source: Revenue Canada

Management does not take full advantage of available information.

**16.30** About 40 performance standards were recently established for processing operations at the Summerside Tax Centre. However, only volume output information is used. Very few efficiency measures have been developed and reported. Also, standards deal mostly with units completed per hour but do not specify the expected level of quality, such as percentage of errors and percentage completed in a specified time period. Another shortcoming of some standards is that they may be aggregated to a point where relevant information is lost. For example, the focus is on the number of documents in the work-in-progress file as opposed to, say, the age of the work-in-progress items at peak and non-peak times for given types of transactions.

Since 1993, Revenue Canada has not undertaken benchmarking activities with other large processing centres.

**16.31** Since 1993, Revenue Canada has not undertaken benchmarking activities with other large processing centres to assess the quality of its practices and technologies. The performance standards have not been compared with similar measures used in other government processing operations such as the ministère du Revenu du Québec, or in private industry. In the context of the new Canada Customs and Revenue Agency, benchmarking against similar organizations could indicate whether some service delivery options — such as contracting out — would further improve efficiency.

**16.32 Revenue Canada should update its GST returns processing standards to include quality, accuracy, timeliness and unit cost, and should measure performance accordingly. Where appropriate, standards should differentiate between peak and non-peak times and among various types of transactions. Standards should presume the use of efficient processing procedures and, where possible, performance should be benchmarked against similar organizations.**

***Department's response:*** *The Department fully agrees with the importance of standards for returns processing. In 1997–98 the Department began a project to significantly improve GST/HST returns processing and establish performance measures using the Balanced Scorecard approach. Existing processes were compared with best practices in other revenue lines within Revenue Canada and concepts were imported from elsewhere, in particular the manufacturing industry. These improved processes are captured in the revised GST/HST Accounting and Processing Procedures (GAPP) manual that describes how processing is now being performed. As noted in paragraph 16.54, these changes have already produced measurable improvements.*

*Key activities were identified as part of the development of the new GAPP, and as noted in paragraph 16.30, about 40 performance standards have been established. The next step will be to develop a Balanced Scorecard of standards, including quality, accuracy and timeliness. The first task will be to confirm the desired quality and accuracy characteristics through a survey of client needs, and benchmarking of performance levels attained by other revenue administrations and private industry. It should be noted that the move of GST/HST processing to multiple tax centres provides the benefit of closer internal benchmarking against other revenue lines and between centres.*

*The Department will carefully take this recommendation into consideration as it continues its development of a balanced set of performance standards for GST processing. Service standards and actual performance will be published regularly.*

### Reliability and timeliness of performance information are deficient

**16.33** Having reliable and up-to-date data is crucial to managing a high-volume processing function like the Summerside

Tax Centre. Managers receive data by activity on labour-hour usage, production, and cost compared with budget. Information comes from various systems that operate on different cut-off periods. Information on labour hours and production quantity is captured simultaneously in ARMS (A Resource Management System). Salary and other operating expenses are initially captured in other systems and are then reflected in ARMS after a three- to five-week delay. ARMS information is most reliable at year-end when all data have come in.

**16.34** We found that there can be wide discrepancies in production information for a given year across systems, and over a number of years. For example, the ARMS production statistics for the months of August 1997, April 1998 and May 1999 showed no production even though the Summerside Tax Centre was operating during those months. Such discrepancies are due to inconsistencies in data input between systems at Summerside, and are not corrected because the data contained in ARMS are not reconciled with data contained in Summerside's local system. Management is aware of the discrepancies between the systems.

**16.35** To establish a unit cost, we relied primarily on data supplied by management at the Summeside Tax Centre, since these data come directly from automated systems that form part of Summerside's regular reporting systems. The data do not have the large time lags that the ARMS data have.

**16.36** Revenue Canada is completing the phased implementation of a Common Administrative System, which will eventually replace the Department's entire Resource Management Information System, of which ARMS is a component. It is still uncertain how many of the currently available financial reports the new system will be able to deliver immediately. The Department plans to temporarily maintain certain processing and reporting components of ARMS to ensure that the majority of currently available and useful financial reports will continue to be accessible.

**Better performance measures will help manage interest costs and improve service to registrants**

**16.37** The prompt processing of GST returns is a service to registrants. It also reduces the government's interest costs. The *Excise Tax Act* requires that interest be paid to registrants on amounts owed beginning 21 days after the receipt of a credit return. Similar rules apply to rebate claims. According to departmental records, in 1997–98 the interest charges incurred by Revenue Canada for late payment of refund and rebate claims amounted to about $13 million, about $3.2 million of which related to transactions processed by the ministère du Revenu du Québec.

There can be wide discrepancies in production information.

**16.38** Monitoring the performance of returns processing operations requires a variety of performance measures. One of these measures ought to be the amount of interest the Department has paid out each year on overdue refunds, compared with a target amount. However, the Department has not set a target for what it would consider a reasonable interest cost of administering GST.

**16.39** Not all of the interest cost is attributable to the Summerside Tax Centre. As well as the number of days it takes to process the documents at the Centre, interest costs are influenced by the number of days required for the tax services offices to review refund claims rejected by the automated validity checks (see paragraphs 16.70 to 16.73) and the number of days required for Public Works and Government Services Canada to issue the cheques. Nevertheless, any reduction in the time the Summerside Tax Centre takes to process its documents would contribute to reduced interest costs and improved service to registrants.

**16.40** The Department has carried out studies on how to achieve its turnaround standard for processing documents while maintaining workload at a consistent level, but it has not analyzed its processing activities specifically to find ways to reduce interest costs.

**16.41** Aside from generally improving the timeliness of processing, one way to reduce interest costs would be to give priority in processing and error correction to the large refund claims; these result in high interest costs if they are not processed speedily. This would be consistent with the current practice of giving high priority in the mail extraction procedures to cheques over $25,000.

**16.42** Using data supplied by Revenue Canada, we found that in 1997–98, refunds were issued to registrants on about 2 million credit returns and rebate forms. The Department estimates that about 30 percent of these refunds included interest. The actual interest expense for the year was $9.8 million, or about $16.33 per cheque on which interest was paid. In the management of items awaiting data capture and in the processing of mail received from tax services offices, we calculate that, as a rough order of magnitude, there is scope to reduce interest costs by between $800,000 and $4 million per year.

Improving the processing of documents can reduce costs and improve service to registrants.

**16.43** Improving the processing of documents can reduce not only interest but also other costs, and can improve service to registrants. For example, after a set date following the end of the filing period, the GST system automatically generates notices to registrants who have not filed their returns. Even if returns have been received, if they are not processed within this timeframe the system automatically generates the notices and incurs additional expenses for printing and mailing. This also results in increased salary costs for client service officers at the Summerside Tax Centre and at tax services offices (who must respond to phone inquiries from registrants) and error correction staff at Summerside (who must deal with second copies of returns submitted by registrants).

**16.44** While reducing interest costs is a valid objective, it must be balanced against the potential monetary loss associated with the payment of improper refund claims if adequate time is not allowed for examination of the claims.

**16.45 Revenue Canada should monitor and control the amount of its portion of interest charges, and should work with Public Works and Government Services Canada to find ways to better manage interest costs and improve service to registrants.**

***Department's response:*** *The Department agrees with the need to monitor and control interest costs. Interest costs are incurred when all stages of the process — returns processing, pre-payment audit and cheque production — take longer than the time provided for in the* Excise Tax Act. *Because interest costs are the result of processing delays and not their cause, the Department believes that processing time should be the primary performance indicator and thus the focus of attention for process improvements. Concentrating directly on the reduction of interest costs could unfairly skew the focus of processing; for example, the rapid handling of large-business returns would become more important than small-business returns. The Department will therefore control the level of interest costs by focussing on improved timeliness and quality for all business clients so that a fair allocation of the benefits is achieved.*

*The Department continues to seek process improvements that will reduce the initial processing time, and the time taken to produce the cheque. Improvements in these two areas will allow more adequate time for consideration of the validity of the claim. Taken together, these improvements will reduce the risk of improper payments and the total time*

*taken to process returns. The results of returns processing improvements to date are already evident, as reported in 16.54, and work will continue in this area. The Department also continues to work with Public Works and Government Services Canada (PWGSC) to reduce the time taken to process payments, and significant progress has already been recorded. For example, Revenue Canada now provides PWGSC with daily payment files, and cheques and direct deposits are produced within three business days. In the near future, PWGSC will offer electronic data interchange payments that will provide next-day deposit into the client's bank account.*

### GST returns processing is being decentralized

**16.46** In October 1996, the Department announced its decision to "realign" its processing of income tax and GST returns. Under this initiative, the Ottawa Tax Centre will become a national call centre and payment-scanning facility. The personal and corporate income tax returns processed by the Centre are being distributed among the remaining tax centres. Also under the initiative, GST processing is being decentralized: some document handling functions now performed solely by the Summerside Tax Centre will be done at other designated tax centres. Summerside will keep some GST processing and will begin processing income tax returns.

**16.47** We did not audit the entire realignment process. However, we understand that Revenue Canada decided to reduce the number of tax centres that were processing income tax returns because the introduction of electronic filing of personal income tax returns and other initiatives had left an excess of processing capacity.

**16.48** Revenue Canada officials informed us that the rationale for partially decentralizing GST processing when it realigned income tax processing was management's aim to provide in future a single tax form combining all types of instalments and a GST return, and a single statement of account for all taxes. Decentralization would also allow each taxpayer to deal with only one tax centre. The Department also wished to ensure that each tax centre, except for Ottawa, would maintain employment at approximately the current level.

**16.49** The Department has told us that it did not perform a cost-benefit analysis of the available alternatives for decentralizing GST returns processing. It wished to put in place a fairly uniform organizational structure among tax centres. This would facilitate the management of all tax streams.

**16.50** We expect that there will be some negative consequences of decentralizing GST returns processing. These consequences include initial start-up costs such as purchasing additional equipment and training staff. Also, the processing of GST rebate forms is to remain at Summerside. This means that registrants who file regular GST returns and rebate forms will have each document processed at a different location. This could cause difficulties in matching documents, increased costs to the registrants and, if there are delays, increased interest costs on overdue refunds and rebates.

**The Department did not perform a cost-benefit analysis of the available alternatives for decentralizing GST returns processing.**

**16.51** Decentralizing GST processing means that functions will be performed at several sites across the country, with lower volumes than at Summerside. Moreover, should electronic filing of GST be introduced, the volume of work would decrease further. This raises the possibility that unit costs of processing may increase. Departmental officials informed us that, to deal with the possibility, they conducted a thorough review of Summerside's procedures for processing GST returns and developed a plan to simplify the activity in a way that could be transplanted to other tax centres. This meant, for example, finding substitutes for certain

local area network-based computer applications that at present can be run only at Summerside.

**16.52** A key aspect of simplifying the process was to pave the way for "lean production" techniques that can achieve low unit cost in an environment characterized by small volumes of a variety of transactions. This will require each tax centre to develop innovative processing techniques to deal with unique situations it may face and, where appropriate, to share such "best practices" with other tax centres.

**16.53** In November 1998, the Department established a GST pilot project at Surrey Tax Centre. This project was not intended to determine whether or not decentralization ought to be undertaken. The project was intended solely to iron out the practical difficulties of transplanting processing operations.

**16.54** To determine the likely impact of decentralization on processing costs, we compared the unit cost of two activities — data capture and error correction — in the Summerside Tax Centre for the period April 1998 to October 1998 (before the pilot project commenced) with the unit costs at both Summerside and Surrey during the pilot for the period April 1999 to June 1999. Our comparison indicates that hourly production rates were higher in both tax centres during the pilot than Summerside had achieved previously. This improved performance may be due to Revenue Canada's efforts to simplify processing.

The pre-payment audit program can detect, on a timely basis, non-compliance by registrants.

## GST Pre-Payment Audit Program

**16.55** In general, GST returns processing is a tax centre activity. It consists of performing relatively routine procedures on documents submitted by registrants. Registrants are rarely contacted, and data are not usually verified in detail. By contrast, Revenue Canada's GST audit programs are performed by auditors in tax services offices across the country. The work involves verifying the data submitted by registrants. This typically means obtaining additional information, often by visiting the registrant.

**16.56** The pre-payment audit program has been in existence since the GST began. It is intended to prevent the inappropriate payment of refunds claimed on credit returns or rebate forms. Refund claims are subjected to a series of automated validity checks. A claim that fails one or more checks is referred automatically to the appropriate tax services office. There, a departmental official reviews the claim and decides either to waive it (in which case the claim will be paid) or to have it subjected to an in-depth review and possibly a pre-payment audit.

### Pre-payment audits are an essential part of Revenue Canada's GST enforcement activities

**16.57** The pre-payment audit program can detect, on a timely basis, non-compliance by registrants resulting from, for example, bookkeeping errors, duplicate refund requests, a misunderstanding of one of the numerous requirements of the *Excise Tax Act*, or fraud. While post-payment audits can detect the same types of non-compliance, registrants may receive refund payments for several years before being selected for such an audit and only a small percentage of registrants undergo post-payment audits. Furthermore, a post-payment audit may occur too late to recover inappropriate refunds. This would be the case if, for example, the registrant had made fraudulent refund claims and had ceased to be in business before a post-payment audit was conducted (see Exhibit 16.5), or if the registrant were to experience financial difficulties during the post-payment audit.

**16.58** During our visits to tax services offices, officials told us that pre-payment audits are a significant source of leads for

future GST and income tax audits. Our sample of post-payment audits (see paragraph 16.77) indicated that the largest identifiable source of these audits was the pre-payment audit program.

**16.59** As an indication of how effective pre-payment audits are at detecting non-compliance, consider these results. In 1997–98, pre-payment audits prevented inappropriate payments at the rate of $1,518 per direct audit hour. These included large refund claims that had been requested by some well-known and established businesses, and that were found to be inappropriate and payment prevented after only a few hours of work. The $1,518 per hour represents a net cash saving: since the pre-payment audits prevent payments from being made, there is no potential for bad debts.

**16.60** We are pleased to note that Revenue Canada is increasing its pre-payment audit activities. Resources allocated to the program in 1999–2000 have increased by 9 percent over 1997–98. In addition, the Department has initiated an enhanced compliance initiative, the main focus of which is to identify and address potentially abusive refund claims.

**Revenue Canada can do more to improve the effectiveness of its automated validity checks**

**16.61** As indicated in Exhibits 16.1 and 16.2, two steps are taken to select refund claims with the highest risk of error. First, automated validity checks are applied to the credit returns and rebate forms being processed by the Summerside Tax Centre. Second, tax services offices review the items rejected by the checks to determine which should be waived and which should be audited.

**16.62 A high percentage of credit returns and rebate forms continue to be rejected by the automated validity checks.** Approximately 30 percent of the credit returns are rejected by the automated validity checks (see Exhibit 16.6). This indicates that the checks are not particularly discriminating in their initial targeting of inappropriate refund claims. If the checks were refined to better target the high-risk credit returns and rebate forms, and if the tax services offices could better determine which rejected returns were most likely to be in error, the offices could likely reduce the time spent reviewing the rejected returns. The saved time could be used to audit

The automated validity checks are not particularly discriminating in their initial targeting of inappropriate refund claims.

Exhibit 16.5

Fraud Case Illustrating the Importance of Pre-Payment Audits

The following case is based on a real case of GST fraud currently being pursued by Revenue Canada. It illustrates the type of GST fraud that Revenue Canada uncovers, and the importance of a well-performing pre-payment audit program.

Several individuals set up corporations and registered them for GST. The corporations then filed credit returns — the input tax credits claimed exceeded the reported GST revenue. Some of the credit returns were rejected by Revenue Canada's automated validity checks, reviewed by auditors and approved for payment. In total, over $20 million in GST refunds was paid to the corporations.

The filing of credit returns was not unusual given the stated nature of the corporations' business. However, in reality there were no purchases or sales, and the refund claims were fraudulent.

The fraud came to light when one of the corporations was selected for a post-payment audit. Because of the way the individuals structured the corporations' affairs, Revenue Canada has not yet identified any assets that can be used to recover the amounts paid out. Its investigations are continuing.

We believe that one of the best ways for Revenue Canada to deal with schemes such as this is to prevent the refund cheques from being issued in the first place. This is the primary purpose of the pre-payment audit program.

additional returns or to perform more detailed audit work on the ones rejected.

**16.63** In 1994 we noted that little analysis had been done on the usefulness of each automated validity check. Since then, Revenue Canada has made some refinements to the checks. Some were made in response to legislative changes, such as the introduction of the HST. Others were made to correct errors in the computer logic or to improve the cost effectiveness of specific checks. However, there has still been little analysis of the relative cost effectiveness of each check for the purpose of reducing the number of refund claims being rejected by the system. The percentage of rejected returns is approximately the same as in 1992–93.

**16.64** The automated validity checks used most often are those that determine whether the amount claimed by a registrant on a return (or the cumulative amount claimed on a series of returns) exceeds a pre-determined threshold amount. Increasing these thresholds for the registrants with the lowest risk of non-compliance might significantly reduce the number of refund claims being rejected by the checks. Other ways to make the current checks more effective include:

- analyzing the amount of revenue assessed from each check to determine which checks are the most effective in detecting amounts that should not be refunded; and
- introducing a point-scoring system to give a weighting to each check. This system could be used both to reduce the number of rejected items — they would need to exceed a certain point score to be rejected — and to better indicate which rejected refund claims should be audited.

There may be more efficient and effective checks that Revenue Canada could use.

**16.65 Other automated validity checks may be more efficient and effective.** While the current checks reject many credit returns and rebate forms, it is possible that they are not detecting some high-risk refund claims. There may be more efficient and effective checks that Revenue Canada could use. To help identify these, Revenue Canada could consider:

- analyzing the results of post-payment audits to identify refund claims that

Exhibit 16.6

GST Credit Returns for 1997–98

| | | Number | Percentage | Amount ($ millions) | Percentage |
|---|---|---|---|---|---|
| Credit returns | (A) | 1,851,000 | 100.0 | 18,379 | 100.0 |
| **Less:** automatically approved at the Summerside Tax Centre | (B) | 1,325,000 | 71.6 | 7,619 | 41.5 |
| Rejected by automated validity checks | (C) | 526,000 | 28.4 | 10,760 | 58.5 |
| **Less:** Waived for payment | (D) | 509,000 | 27.5 | 9,854 | 53.6 |
| Audited | (E) | 17,000 | .9 | 906 | 4.9 |
| Dollars assessed from audit | (F) | | | 157 | |
| Percentage waived of those rejected | [(D) ÷ (C)] | | 96.9 | | 91.6 |
| Percentage audited of those rejected | [(E) ÷ (C)] | | 3.1 | | 8.4 |
| Percentage assessed amount of audited amount | [(F) ÷ (E)] | | | | 17.3 |

**Source:** Revenue Canada

passed the checks but were subsequently found to have errors;

- developing checks based on registrant profiles; and

- selecting credit returns and rebate forms at random for audit, thus helping to determine levels of compliance and possibly identifying new checks that should be added to the system.

**16.66 Debit returns are not part of the pre-payment audit program.** Returns where the GST charged to customers by the registrant exceeds the input tax credits claimed by the registrant are referred to as "debit returns." While these returns do not result in refunds to registrants, they may contain as much (or more) understated GST revenue or overstated input tax credits as credit returns. Currently, such errors are not identified until a post-payment audit is conducted. However, only a small percentage of registrants undergo post-payment audits, and these may be performed several years after an erroneous return has been filed.

**16.67** One way that Revenue Canada could identify incorrect debit returns at an earlier date would be to develop automated validity checks for these returns. Her Majesty's Customs and Excise in the United Kingdom is currently using a limited number of such checks to select debit returns for review and audit, and is planning to extend the use of these checks in the future.

**16.68** Another way for Revenue Canada to identify incorrect debit returns at an earlier date would be to expand its Computer Assisted Audit Selection (CAAS) system (see paragraphs 16.82 to 16.86) to select debit returns for review and audit at the same time as it conducts pre-payment audits of credit returns. Revenue Canada officials have informed us that the ministère du Revenu du Québec already has such a program in place.

**16.69 Revenue Canada should enhance its ongoing program to review and revise the automated validity checks. It should also consider reviewing and auditing debit returns at the same time as it conducts pre-payment audits of credit returns.**

***Department's response:*** *The Department agrees with the recommendation to enhance its ongoing program to review and revise the automated validity checks. As part of this process, the Department will carefully examine the Auditor General's suggestions in paragraphs 16.64 and 16.65. Additionally, the Department intends to modify the automated validity checks to include the appropriate risk issues identified in the Computer Assisted Audit Selection (CAAS) system. Furthermore, recognizing that one of the key ways in which to prevent fraudulent refund claims is to ensure that at the time of registration only legitimate businesses are registered for GST, departmental staff are working on a number of initiatives in this area.*

*With respect to debit returns, it should be noted that the Department already assesses all debit returns for risk using CAAS and the Department advocates the continuation of its work to further improve the CAAS system for debit returns. This notwithstanding, the Department will examine ways to conduct earlier reviews and audits of registrants identified as high risk. Senior departmental officials will be meeting with officials from other jurisdictions to share audit strategies and approaches for both credit and debit returns.*

Currently, errors in debit returns are not identified until a post-payment audit is conducted.

**Delays in reviewing and auditing rejected refund claims add to interest costs and reduce service to registrants**

**16.70** Reducing the time required to review and audit rejected credit returns and rebate forms would reduce the amount of interest incurred on refund claims paid after 21 days. It would also improve service to GST registrants.

Tax services offices are having trouble keeping up with the workload generated by the automated validity checks.

**16.71** We noted that tax services offices are having trouble keeping up with the workload generated by the automated validity checks — both at the initial review stage and later, when the work is assigned to auditors. In 1997–98, according to Revenue Canada officials, 72 percent of the pre-payment audits took longer than 30 days to complete and accounted for 13 percent of the amounts paid to registrants. In a sample of 27 pre-payment audits that we selected from among the five tax services offices that we visited, we noted delays in completing 17 of them. Nine took more than 180 days to complete. We determined that the audit delays were caused primarily by the registrant in 7 of the 17 cases and in 10 cases by Revenue Canada.

**16.72** Delays caused by the registrant consisted primarily of the time it took the registrant to provide requested information. Delays caused by Revenue Canada consisted primarily of the interval between rejection of the refund claim by an automated validity check and commencement of the auditor's work. Tax services officials informed us that these delays were due mainly to the workload created by the large volume of refund claims.

**16.73** If a pre-payment audit were to ultimately prevent a refund cheque from being issued, the fact that it had taken many months to complete would not add to Revenue Canada's interest costs. However, of the 17 delayed audits in our sample, 15 ultimately resulted in a cheque being issued to the registrant. In total, the registrants' claims were reduced by 38 percent. While this is more than the 17 percent reduction for all 1997–98 credit returns (see Exhibit 16.6), it means that the registrants received interest for the period of the delay on 62 percent of the amount claimed.

**There is a need for up-to-date procedures to review refund claims**

**16.74** We noted that the Department's national procedures for reviewing credit returns and rebate forms are not up-to-date. As a result, they are not always being followed. Some tax services offices that we visited have published their own procedures, while other offices have left the matter up to each individual. There is a risk that some reviewers are performing too little work, thus failing to identify inappropriate refund claims, while others are performing too much work — an inefficient use of audit time.

**16.75** Staffing matters are compounding this risk. Officials at three of the five tax services offices that we visited informed us that the units responsible for reviewing the refund claims were experiencing high staff turnover. At two offices, we were informed that there was a move toward using lower-level staff to review the claims. If this were to occur, decisions could be made by staff who lack sufficient knowledge of the office's registrant population to be able to identify the highest-risk credit returns and rebate forms. Again, the reviewer might perform either too little or too much work on a particular item.

**16.76 Revenue Canada should intensify its review of the procedures used in the tax services offices to review and audit refund claims. This would include reviewing how the offices control their workload, and the number, levels and experience of audit staff performing the various functions.**

***Department's response:*** *The Department is in agreement with this recommendation and has already completed some work in this regard, and has initiated further study and review activities as suggested by the Auditor General.*

- *We have reviewed the procedures used in the tax services offices (TSOs) to*

*review and audit refund claims and obtained from them lists of best practices. This information is being included in the updated guidelines that are being developed within the Verification, Enforcement and Compliance Research (VECR) Operational Manuals project. These guidelines will include updated procedures as well as review and audit techniques to process and select credit returns for examination, and updated procedures for setting individual and cumulative thresholds. Increased monitoring will be performed to ensure that thresholds are appropriately set.*

- *As a result of a focus group meeting held in May 1999 to examine ways to improve overall program delivery for all Small and Medium Enterprise programs, guidelines will be issued shortly to all TSOs recommending that the initial review and evaluation of credit returns be consolidated within the Verification and Enforcement area of the TSO responsible for workload selection. This will provide for greater consistency in the way "tax at risk" is identified and further ensure that experienced staff address the review of credit returns. Many TSOs have already moved to this type of approach.*

- *The VECR Branch recently concluded a study relating to team size and will be recommending that TSOs move to smaller teams, which will provide for closer monitoring of the workload by the first line supervisor.*

## GST Post-Payment Audit Program

**16.77** The post-payment audit program is a tax services office function. Teams of post-payment auditors select registrants for examination. They generally select the registrants they believe represent the highest risk of non-compliance. The file is then assigned to an auditor who plans the audit, performs the work and, if appropriate, issues an assessment. In this section, we examine each of the three main steps — audit selection, audit planning and audit performance. Some of our findings are based on a sample of 141 post-payment audits that we selected from among five tax services offices.

**Better data and tools would improve Revenue Canada's audit selection process**

**16.78** As a first step in assessing the risk of non-compliance, Revenue Canada groups its registrants into two general categories, based on their annual revenue. "Large files" — those representing the highest revenue — are supposed to have all tax years audited in full. (However, owing to staff shortages, not all tax years are being audited in full in the tax services offices that we visited.) "Small and medium enterprises" — those with lower revenues — are selected for audit using a risk-based approach, taking into account such factors as the results of any previous audits, the industry sector, and how closely the GST they have reported matches industry norms. Small and medium enterprises can be selected for audit through numerous means, including:

- external leads from third parties;

- internal leads or referrals from other units in the tax services office or elsewhere in Revenue Canada;

- Revenue Canada's Computer Assisted Audit Selection system; and

- judgment based on sources such as industry directories and business listings in the yellow pages of telephone directories.

**16.79** Not all of these selection methods are equally effective at finding non-compliance. Some may work better in some industry sectors or geographic regions than others.

**16.80 Revenue Canada cannot tell the extent to which the various audit selection methods are being used.** To help determine the most effective selection methods to use for a particular sector or in a particular region, Revenue

**The Department does not have detailed information on how registrants have been selected for post-payment audit.**

Canada needs to know how well various methods have worked in the past. However, the Department does not have detailed information on how registrants have been selected for post-payment audit. The audit selection codes currently captured in the GST mainframe and in the Audit Laptop System are not recorded consistently and are sometimes not specific enough to identify the method of selection. Furthermore, during the period covered by our audit, not all offices were using the selection codes set up in the Department's Audit Information Management System (AIMS) to complement the Audit Laptop System. We understand that the tax services offices have since begun using the audit selection codes in AIMS.

**16.81** One tax services office that we visited had routinely used narrative to complement the audit selection codes, so we were generally able to determine the selection method. In the other four offices, we were unable to determine the selection method for over 40 percent of our sample items.

**16.82 The effectiveness of one of Revenue Canada's audit selection methods is hampered by some data deficiencies and a need for ongoing training.** When Revenue Canada's Computer Assisted Audit Selection (CAAS) system is combined with the Audit Report Generator On-line (ARGO), the system allows auditors to focus on specific industry sectors, geographic locations and audit issues. The system contains GST and income tax data, some provincial sales tax data, and data on importers. Auditors can use this information to identify registrants who do not fit the usual profile of the industry, or whose GST and income tax data appear to be inconsistent.

There are deficiencies in Revenue Canada's Computer Assisted Audit Selection system.

**16.83** While we consider CAAS/ARGO to have potential for selecting registrants with a high risk of non-compliance, Revenue Canada auditors had used it to select only 7 percent of the post-payment audits in our sample. Revenue Canada officials at headquarters and some auditors tasked with using the tool cited certain deficiencies in it. For example, information on gross revenues and other pertinent business data for each registrant are not up-to-date. Also, there are no data on export sales. (As these sales are not taxed, they can significantly distort ratios used to highlight potential non-compliance.) Revenue Canada officials identified these and other deficiencies as early as 1996 but, despite their efforts, have not yet been able to resolve them. At present, they are considering adding the reporting of export sales to the GST returns.

**16.84** The effectiveness of CAAS/ARGO is also hampered by missing or incorrect standard industry classification codes used to group registrants by industry sector. The use of CAAS/ARGO to select registrants in a particular industry sector would not capture registrants with missing or incorrect codes. Despite recent improvements, in May 1999 over 10 percent of the registrants in Revenue Canada's database still did not have standard industry classification codes. In our post-payment audit sample, 9 percent did not have codes and, in our view, more than 10 percent of the other registrants had codes that were incorrect.

**16.85** Further, based on interviews conducted in the five tax services offices that we visited, it appears that the effectiveness of CAAS/ARGO is hampered by the lack of training received by some employees tasked with using the system. Revenue Canada officials informed us that high staff turnover may be contributing to this.

**16.86 Revenue Canada should continue to improve its Computer Assisted Audit Selection and Audit Report Generator On-line systems. This would include dealing with the identified deficiencies, ensuring that all**

**necessary data (such as standard industry classification codes) are available, and providing additional training to staff who are expected to use the system.**

***Department's response:*** *Although Revenue Canada's Computer Assisted Audit Selection and Audit Report Generator On-line systems for GST are relatively new, we have been seeking and will continue to seek ways to improve them. This ongoing process includes incorporating new data from various sources and increasing the completeness and accuracy of currently available data.*

*We recognize the importance of data on export sales and will continue our efforts to obtain such data. We also recognize the importance of standard industry classification codes and are working with officials from Statistics Canada to address this.*

*Although we have been providing ongoing training on the use of these systems, we recognize the need for continuous training and will increase our efforts in this area.*

**16.87 Random audits are needed.** One way to identify the sectors with the highest rates of non-compliance would be to periodically select a random sample of registrants in which all sectors have an equal chance of being represented. This sample could also be used to measure changes in levels of non-compliance over time. After many delays, Revenue Canada has a project under way to select a random sample from one industry sector. Samples were sent to the tax services offices in February 1999, and the first audit results are due in December 1999.

### More attention needs to be given to audit planning

**16.88** Once a registrant has been selected for audit, the file is assigned to an auditor. The auditor is then responsible for developing an audit plan, performing the work and, if appropriate, issuing an assessment.

**16.89** While good selection techniques will help to ensure the selection of registrants with the highest risk of non-compliance, they must be followed by good planning to ensure the efficient and effective use of audit resources.

**16.90 Documentation of planning is limited.** To assist in the planning process, Revenue Canada's Audit Laptop System contains suggested planning procedures. The procedures are not designed to deal with many industry sectors or complex issues. Given these limitations, Revenue Canada requires its large file auditors to augment the planning procedures in the Audit Laptop System with written audit plans. However, of the eight large file audits that we believe needed an audit plan, only four had a written plan.

**16.91** Revenue Canada officials have informed us that the Department also requires its auditors of small and medium enterprises to augment the planning procedures in the Audit Laptop System with written audit plans. However, most of the audit files in our sample did not contain these plans.

**Most files in our sample did not contain audit plans.**

**16.92** Revenue Canada's Quality Assurance Division also concluded that more documentation of planning would be beneficial. It also noted that better training — both through courses and on the job — would help to improve the planning process.

### There are areas of strength in audit performance

**16.93** Once the audit has been planned, the auditor performs the work. This includes completing the work described in the plan and reaching appropriate decisions as to which issues should be pursued and which should be dropped. It also includes documenting, either in the Audit Laptop System or in hard copy working papers, the work performed and the key decisions made. Exhibit 16.7

contains an example of what we consider to be a good post-payment audit.

**16.94** We noted areas where *all* tax services offices were performing well. For example, on most audits:

- there was evidence in the working paper files (Audit Laptop System or hard copy) that auditors had taken into account previous experience with the registrant when determining which issues to audit;
- there was no evidence in the files that issues raised were not adequately addressed; and
- the files contained support for the amounts being assessed.

**16.95** We also noted areas where *some* tax services offices were performing well. For example, two offices had expanded their audits of registrants to incorporate audits of related parties, in the majority of the cases where this work appeared to be appropriate. Auditing related parties concurrently can determine whether transactions between the parties were handled correctly for GST purposes.

**16.96** We also noted that some tax services offices have enhanced the standard audit support tools. For example:

- one office has developed a software application to facilitate monitoring of the work in progress and a standard audit program to be used on its smallest registrants;
- another office has developed guidelines for dealing with requests under Revenue Canada's audit "fairness package" and a course dealing with net worth audits and reasonability tests; and
- a third office has developed a comprehensive set of audit programs and a working paper index for large file audits.

Thirty-two percent of the audits had been under way for more than 180 days; these accounted for 70 percent of the cumulative GST audit hours.

**Some aspects of audit performance require improvement**

**16.97** Our sample of post-payment audit files revealed some areas in need of improvement. Many audits took many months and many hours to complete. There was usually no evidence of active participation by the team leaders. Some policies were not followed and some procedures were not performed. These are discussed below. In addition, the audit described in Exhibit 16.8 provides examples of needed improvements.

**16.98 Many audits took many months to complete.** A national report of GST audits in progress on 22 March 1999 showed that 32 percent of the audits had been under way for more than 180 days. These accounted for 70 percent of the cumulative GST audit hours. This means that audits begun in the past six months

Exhibit 16.7

Example of a Good Post-Payment Audit

The auditor began by comparing GST revenue, as reported by the registrant on its GST returns, with the sales amount reported in the registrant's financial statements. The auditor noted an unexpected decline in GST revenue, and adjusted his audit program to deal with this. This work revealed clerical errors and sales invoices on which GST had not been charged correctly. These errors totalled approximately $90,000.

The auditor also checked for clerical errors in the input tax credit account. He discovered that the registrant was entitled to input tax credits in respect of purchases on which GST of approximately $50,000 had been paid.

A review of other selected general ledger accounts and bank statements did not reveal any further anomalies, so the auditor did not perform any more detailed tests. The audit work was completed in approximately 100 hours, and less than two months elapsed between the file's assignment to the auditor and the issuance of the notice of assessment. The audit working papers contained a complete index, a section that provided an overview of the audit and a summary audit program, and schedules that clearly supported all amounts being assessed. An income tax compliance checklist had also been completed.

accounted for only 30 percent of the audit hours.

**16.99** In our own audit sample, 67 of the 141 post-payment audits had taken more than 180 days, and 14 had lasted more than two years. The average duration of the 67 audits was 495 days — about 16 months.

**16.100** The extensive length of these audits was the result of delays caused by either Revenue Canada or the registrant or both. Delays by Revenue Canada were due primarily to conflicting priorities of the auditors involved. Delays caused by registrants were primarily due to a failure to respond to requests for an initial meeting or to provide requested documentation on a timely basis.

**16.101** Some of the delays caused by Revenue Canada could have been avoided by better audit planning and increased monitoring of the work in progress. In one tax services office, we were told that audits had not been monitored because team leaders were being rotated every few months. Detailed monitoring was performed only after permanent team leaders had been assigned. Another office told us that for various reasons there had been no detailed monitoring, so many audit files had been outstanding for more than 180 days. We were also informed that to make the workload more manageable, a number of old files had been reviewed and a decision made to discontinue work on those expected to generate low or no assessments.

**16.102** Registrant delays can add significantly to the cost of the audit, and are often beyond Revenue Canada's control. It can penalize registrants who do not provide requested data promptly. While we understand that the Department does impose these penalties, and some files in our audit sample indicated that it had threatened to impose them, it had not done so in any of our sample items.

**Registrant delays can add significantly to the cost of the audit.**

**16.103 Some GST audits were not efficient.** Audits that take many hours but yield only small assessments are not necessarily poor audits. Very large, complex registrants may take hundreds of hours to audit, and may turn out to be in compliance with the *Excise Tax Act*. On the other hand, a pattern of such audits could be a symptom that they were poorly done.

**16.104** To determine whether audits that take many hours but yield only small assessments are good or poor audits, we reviewed the 25 audits in our sample that had taken more than 100 hours and had yielded a revenue recovery of less than

Exhibit 16.8

**Example of a Post-Payment Audit Requiring Improvement**

The audit file was assigned to the auditor in November 1992. The auditor completed his field work and sent a proposed assessment to the registrant in May 1995. For various reasons, the notice of assessment was not issued until December 1997 — more than 18 months after the proposed assessment and more than five years after the assignment date. Almost 800 hours had been charged to the audit. The assessment was for about $31,000. Penalty and interest had been reduced due to the excessive time between the completion of the fieldwork and the issuance of the assessment.

Most of the assessment dealt with inappropriate input tax credits on employee automobile benefits. Other miscellaneous matters were assessed, including $200 of unreported GST on sales to employees. In our opinion, the extent of testing and documentation to support the amounts assessed appeared excessive.

During the five-year period, there was a change in the team leader assigned to the audit. There was no evidence that either team leader had been actively involved in the audit.

The working papers did not indicate how or why the registrant had been selected for audit. There was no evidence that any reasonability tests had been performed.

The audit had been recorded on the GST mainframe as a large file audit; this was not the case.

$100 per hour. We found that in over 75 percent of the cases, the time spent appeared to be excessive in relation to the size and complexity of the registrant and the scope of the audit work. This not only represents an inefficient use of resources but also adds to the burden on the registrants being audited.

**16.105** Revenue Canada officials have informed us that post-payment audits that had taken more than 100 hours and yielded a revenue recovery of less than $100 per hour constituted only 5 percent of the audits completed in 1997–98. Nevertheless, we believe that excessive audit time is a matter that Revenue Canada needs to pursue. We found in sample items other than the 25 just noted that audit time had been excessive in relation to the size and complexity of the registrant. In addition, Revenue Canada's Quality Assurance Division also reported that it found many audits conducted in 1996 and 1997 that had taken an excessive length of time in relation to the audit scope, and that many audits went on far too long. The report concluded that better audit planning and greater management participation would reduce the time spent on audits.

Team leader involvement in audits is limited.

**16.106** One way to control the number of hours spent on an audit would be to budget at the planning stage for a certain number of hours. Ideally, budgets would be tailored to each set of circumstances to provide a better basis for managing and controlling audit performance. This is not being done. Instead, tax services offices often use national averages, developed by Revenue Canada as part of its annual budgetary exercise. These national averages fail to account for the unique characteristics of each audit. One tax services office that we visited now requires staff to sign "performance communications", stating that, among other things, they will normally complete their audits in less time than the national averages. While we understand that these documents were implemented to provide the office's management with greater control over the number of hours spent on each audit — a commendable goal — we are concerned that this approach could lead staff to unduly limit the scope of their audits.

**16.107** Another way to control the time spent on an audit would be to increase active participation by team leaders. This would also help to ensure that audits do not drag on too long and are performed as planned. Seventy percent of our post-payment audit files showed no evidence of such participation.

**16.108** In a recent report, Revenue Canada's Quality Assurance Division also reported that team leader involvement in audits is very limited. The report cites various contributing factors, such as group size and the heavy demands of other responsibilities. The Department is considering reducing the size of groups and redefining the roles and responsibilities of team leaders.

**16.109 Revenue Canada should enhance its efforts to reduce the duration of its audits and the hours required to complete them. These efforts should include enabling team leaders to be more actively involved in their audits, and providing greater support to auditors in planning and performing their work. Efforts should also include making more use of penalties to deter delays by registrants.**

***Department's response:*** *As described below, Revenue Canada has already taken action to improve overall program delivery in the areas identified in this recommendation.*

- *In the budget exercise for 1999–2000, very specific accountabilities have been put in place to ensure the achievement of overall program objectives. The tax services offices (TSOs), through the regional offices, will report to headquarters starting with the six months ending September 1999 on the progress achieved in relation to meeting agreed-to*

*objectives. The report will include comments on the reasons for any variances and the action plan to address the variances. This will include status reports on files outstanding for more than six months.*

- *The Department has completed a Team Size study, which recommends a reduction in team sizes. This will be discussed with regional and tax services office management with a view to formal implementation in 2000–2001. Implementing the recommendations from this study will enable the team leaders to spend more time with the auditors and become more actively involved in the audits. Most TSOs have already implemented the smaller team size structure recommended in this study.*

- *In collaboration with the Small Business Advisory Group, the Department developed an audit pamphlet, which will be provided to all taxpayers/registrants when an audit is started. The pamphlet clearly sets out the responsibilities of the taxpayer/registrant and the auditor in the audit process. With everyone having a clear understanding of their responsibilities, there will be fewer delays on audits.*

- *In May 1999 the Department held a focus group session involving staff from TSOs to develop an action plan to improve overall program delivery. The recommendations from this focus group are being implemented this fiscal year. One of the recommendations coming out of this focus group is to make more use of formal requirements where taxpayers/registrants or tax practitioners are not providing information within reasonable time frames. Prosecution action will be initiated where there is non-compliance with the requirements. In addition, the Department will look at the possibility of increased use of civil penalties for failure to provide information.*

**16.110 The audit period often exceeded Revenue Canada's policy without justification.** One of Revenue Canada's policies is to restrict the coverage of each GST audit to the two preceding tax years, along with returns filed during the current year. Earlier years are to be audited only in limited circumstances, and only on the approval of the team leader. This policy is designed to improve audit efficiency and reduce the burden on registrants.

**16.111** We noted that the audit period for 76 of our 141 post-payment audits exceeded the period called for in the policy, in a large number of cases without justification. The Department has issued a directive to its auditors of small and medium enterprises to reinforce the policy.

**16.112 Incorporating a compliance review of income tax into GST audits is not a common practice.** The strategy for audits of small and medium enterprises calls for the integration of income tax and GST audits to the extent possible. In cases where only one tax is audited, a "compliance review" of the other tax is generally required. This work entails examining specific indicators of the second tax to determine the level of compliance. Compliance reviews offer increased coverage, which should lead to greater deterrence and increased revenue recovery.

In cases where only one tax is audited, a "compliance review" of the other tax is generally required.

**16.113** Using the Department's own criteria, we concluded that an income tax compliance review checklist had been warranted in 77 of the post-payment audit files we reviewed. Fifty-two of these files contained no evidence that these checklists had been completed. Departmental officials have informed us that they recently made changes to the Audit Information Management System to provide management with the information needed to ensure that compliance reviews are done when necessary.

## Support for the GST Audit Programs

### Staffing and training needs

**16.114** The success of the pre-payment and post-payment audit programs depends on the availability of enough qualified, well-trained and well-equipped staff. The ideal number and mix of staff in terms of knowledge, skills and experience varies among tax services offices, depending on the characteristics of the registrant population served by each office.

**16.115** Senior managers in all five tax services offices that we visited stated that they do not have the ideal complement of audit staff and equipment. Two offices have a surplus of auditors at the AU–1 level (who typically audit smaller corporations) and a shortage of "generalist auditors" at the PM–2 level (who typically do both GST and income tax audits of small unincorporated businesses). Three offices have a shortage of senior auditors (AU–3 level) who audit large corporations.

Auditors often do not perceive that they have a promising career path in the GST stream.

**16.116** Senior managers and auditors in the five tax services offices informed us that the shortage of senior auditors is made worse by high turnover, due to staff transfers within the Department as well as staff departures. Auditors often do not perceive that they have a promising career path in the GST stream, and prefer to switch to the income tax stream. This perception has its roots in differences in the job descriptions of auditors, predating the consolidation of the former departments of Taxation (which administered the income tax) and Customs and Excise (which administered the GST). For example, the job descriptions call for GST auditors at the AU–2 level to perform audits of the larger small and medium enterprises, while the income tax audits of these enterprises are done by more senior auditors, at the AU–3 level.

**16.117** As for training, the generalist auditors at the PM–2 level in the five tax services offices claimed that their training was excellent. Other GST auditors informed us that they lacked training in specialized areas. In particular, some auditors told us that they felt ill-prepared to audit complex and specialized organizations, such as public sector bodies (for example, municipalities). In some offices, technical advisors have augmented the official training program. When time permits, these experts in legislative interpretation give presentations on technical topics of local interest.

**16.118** Departmental officials have informed us that they have commenced a number of initiatives to attract and retain knowledgeable staff.

### Information needs

**16.119** To improve its GST pre-payment and post-payment audit programs, Revenue Canada needs to know which activities are working well and which ones need improvement. This means that the Department needs consistent and reliable information that can be aggregated and compared with GST assessments.

**16.120 Problems in the consistency of the data.** In previous reports, we have commented on problems of data consistency. In this audit, we again encountered inconsistent data. Until Revenue Canada can assure itself that the data are consistent, it will not know which variances in audit results — among tax services offices and year to year — are attributable to errors and inconsistencies and which are attributable to "real" performance factors that should be followed up. These data problems will limit Revenue Canada's ability to improve its pre-payment and post-payment audit programs.

**16.121** We noted the following problems:

- inconsistencies in recording the time spent initially to review the

audit-worthiness of a particular return or registrant;

- inconsistencies in recording audit types; and

- recording different audit times in the Audit Laptop System and the Audit Information Management System in four of the five offices we visited. (In the fifth office, differences were being reconciled.)

**16.122 Some necessary data are not being captured, or are not being captured in ways that can easily be aggregated.** Revenue Canada does not have aggregated data on the kinds of non-compliance being identified during post-payment audits, or on the scope of its post-payment audits. (These may be full audits or restricted to specific issues.) If these data could be aggregated and matched in aggregate to resulting assessments, Revenue Canada would be better able to determine the most prevalent forms of non-compliance and the effectiveness and efficiency of its audits.

**16.123 Some aggregated data are not readily available.** In order to make good audit selections, management needs information such as the number of registrants in each industry sector or in various ranges of sales revenue, prior audits of each registrant, audit hours and amounts assessed by industry sector, and adjustments to assessments made by the Appeals Branch. Although this information exists in various databases and reports, it is sometimes difficult to access and analyze. In these cases, management must rely on special ad hoc reports and registrant tape files that are updated and distributed every six months.

**16.124 Revenue Canada should continue to improve the timely availability of data needed to manage the GST audit programs effectively. To that end, the Department should resolve inconsistencies in the data-capturing methods, ensure that missing data are obtained, and ensure that data can be aggregated and analyzed.**

***Department's response:*** *The Department agrees with this recommendation; some work has been completed and other work is under way to address these issues.*

- *GST audits were included in the Audit Information Management System (AIMS) to enable managers in the tax services offices and in the regions to better manage program delivery. The Department will continue to modify AIMS to provide more information on GST audits, such as the reasons for audit selection.*

- *The Department is using state-of-the-art technology to develop applications (GST Power Play Cubes using Impromptu), which will enable all levels of management to more easily aggregate and analyze information on GST audits completed and in process. The Department is also developing applications for managers using Electronic Business Intelligence System software that will enable all levels of management to more easily benchmark progress in relation to key performance indicators. These initiatives will facilitate increased effectiveness in the management of the GST audit program.*

- *The Department is in the early stages of developing a comprehensive Management Information System to meet the information needs of all programs within the Verification, Enforcement and Compliance Research Branch and to fully implement the Management Information Agreements that have been put in place. This system will provide considerable data relating to program delivery and also more information on the types and dollar values of non-compliance identified by audits.*

- *The Department is also developing a Corporate Performance Measurement Framework based on the Balanced Scorecard methodology for all programs. Building this system will entail the*

Revenue Canada does not have aggregated data on the kinds of non-compliance being identified.

*redesign of the Department's entire measurement system, from the development of corporate measures to how measures are used and interpreted by management and employees.*

**16.125 Revenue Canada makes few comparisons with other revenue administrations.** Comparing Revenue Canada's audit selection, planning, performance and results with those of similar organizations could help it to measure current success and identify best practices, thus leading to improvements.

**16.126** While the ministère du Revenu du Québec uses all of Revenue Canada's systems and policies, it sets its own audit strategy. Revenue Canada officials informed us that, while they maintain open communication with the ministère on operational and administrative matters, they do not verify the completeness or accuracy of the data received from the ministère or perform detailed analyses of its audit results. Revenue Canada is close to finalizing an updated agreement with the ministère that provides for a more structured sharing of audit strategies, work plans and audit results.

The Department is in the early stages of developing a comprehensive management information system.

**16.127** As for other organizations, Revenue Canada officials informed us that they have ongoing dialogue and attend international gatherings with similar organizations in other countries with GST (value-added tax); however, they have not formally compared their compliance efforts with those countries.

### Control over audit files

**16.128** Revenue Canada needs to be able to locate its audit files when registrants appeal their assessments. However, for 8 of the 168 pre-payment and post-payment audits in our sample, the hard copy working papers could not be located. Similarly, for audits of 17 registrants, the Audit Laptop System diskettes either could not be found or were unusable.

**16.129** The primary reason given for the lost and misplaced hard copy files was the absence of an electronic control log to track who in Revenue Canada has the GST audit files when they are transferred among various units — for example, Appeals Branch, Special Investigations, headquarters or other tax services offices. The primary explanation for the unusable diskettes was that they malfunctioned during the audit and the audit working papers contained therein could not be retrieved. Departmental officials have informed us that they are currently addressing these matters.

## Reporting on Performance

**16.130** Under its governing legislation, the new Canada Customs and Revenue Agency will be required to establish and report on performance in relation to its objectives and performance expectations. We found that production data for the GST processing function are collected and made available in a relatively timely manner. However, we found very few instances of these data being used to arrive at accurate performance measures. As for audit, the Department is in the early stages of developing a comprehensive management information system to meet the needs of its Verification, Enforcement and Compliance Research Branch, which is responsible for the GST audit function. It is important that the Department correct the deficiencies we have noted throughout this chapter with respect to the availability, consistency and reliability of data and that it complete the information system it is developing. Otherwise, the new Agency's ability to report on performance as required by its Act may be jeopardized.

# Conclusion

**16.131** Returns processing and audit are two core functions of GST administration. Our audit of these functions revealed both examples of good performance and areas

for improvement. In the audit function particularly, we noted that Revenue Canada has identified several areas for improvement and has launched improvement initiatives, but the results of these measures are not yet known.

**16.132** The timeliness with which documents are processed at the Summerside Tax Centre has improved since the Centre opened in 1993. Our examination of the timeliness of post-payment audits revealed that many audits have extended over many months and have taken many hours to complete. Pre-payment audits by their nature do not last as long as post-payment audits, but these, too, are prone to delays. Both Revenue Canada and the registrants themselves have contributed to delays in the completion of audits. We believe that further improvements are possible in the speed with which documents are processed and that additional steps can be taken to reduce the delays experienced in audits. This would result in better service to registrants and, in some situations, reduced interest charges on refunds paid after the 21-day grace period. Document processing, pre-payment audit and post-payment audit activities are linked, and the persistence of problems with timeliness suggests that performance in this network of activities has not yet been optimized.

**16.133** Revenue Canada has made progress in establishing performance standards and expectations for its returns processing and audit activities, and is undertaking a major overhaul of its management information systems. At present, however, standards for returns processing tend to place insufficient emphasis on quality, accuracy, timeliness and unit cost, and the use of performance information is hampered by problems with the availability and reliability of data. In the Department's audit activities, the use of performance information is hampered by problems with the availability and consistency of data.

**16.134** The Department faces a significant challenge in maintaining a sufficient complement of GST staff with appropriate knowledge, skill and experience. Staff transfers within the Department and staff departures contribute to shortages of staff in particular activities. Training for staff who must perform new functions has not always kept up with the need.

**Our audit revealed both examples of good performance and areas for improvement.**

**16.135** Prompted by the decision to decentralize the processing of GST returns, formerly performed only at the Summerside Tax Centre, Revenue Canada recently simplified its procedures. This follows efficiency gains made over the years in Summerside. Revenue Canada has also improved the automated validity checks it uses to select, for possible pre-payment audit, credit returns with the highest risk of non-compliance. However, we believe that further improvements are possible to make the checks more effective, and that the Department should consider reviewing and auditing debit returns at the same time as it conducts pre-payment audits of credit returns. Also, the performance of both pre-payment and post-payment audits could be improved by the consistent application of existing or strengthened procedures.

# About the Audit

## Objective and Scope

The objective of the audit was to assess the efficiency and effectiveness of Revenue Canada's GST returns processing and audit activities.

The audit took place at Revenue Canada headquarters in Ottawa and at various tax centres and tax services offices throughout the country.

## Criteria

We expected that:

- processing and audit of GST returns, and payment of refunds and rebates, would be done on a timely basis;
- management would work continually to optimize the performance of the entire network of GST functions and activities;
- performance expectations for GST returns processing and audit activities would be set out in departmental plans. Management information systems would track related performance information;
- the Department would have recruited, trained, developed and maintained a sufficient complement of staff with appropriate knowledge, skill, and experience;
- operations would be designed and carried out using efficient systems, processes, procedures and work methods. The performance of risk assessment criteria and audit methodology would be regularly monitored, assessed and updated; and
- adequate information systems would be in place that ensure the reliability, consistency, availability and security of key information used in GST processing and audit.

## Audit Team

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 17
Canada Infrastructure Works Program:
Phase II and Follow-up of Phase I Audit

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

## Chapter 17

Canada Infrastructure Works Program:
Phase II and Follow-up of Phase I Audit



September 1999

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# Chapter 17

## Canada Infrastructure Works Program

Phase II and Follow-up of Phase I Audit

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 17–5 |
| **Introduction** | 17–7 |
| Objectives and structure of the Program | 17–7 |
| The allocation of responsibilities between the federal and provincial governments is based on their comparative expertise | 17–8 |
| Focus of the audit | 17–9 |
| **Observations and Recommendations** | 17–10 |
| **Program Implementation** | 17–10 |
| Some program differences exist between Phase I and Phase II | 17–10 |
| Both phases of the Program were implemented quickly | 17–10 |
| Program officials view the program approach very positively | 17–10 |
| Effort was devoted to ensuring that participation of all partners was recognized | 17–11 |
| **Funding, Targeting and Impacts of the Program** | 17–12 |
| Funds were spent largely on traditional infrastructure | 17–12 |
| Program targeting is weak | 17–12 |
| The implications of private-sector-related projects need to be addressed | 17–14 |
| Incentives exist to substitute Canada Infrastructure Works Program funds for regular, ongoing provincial infrastructure expenditures | 17–16 |
| Safeguards are needed to limit program substitution | 17–17 |
| Continuing questions about job creation estimates | 17–18 |
| **Financial and Management Controls** | 17–19 |
| Insufficient attention to ensuring control | 17–19 |
| Implementation of compliance audits has been slow | 17–19 |
| Insufficient assurance of value for money | 17–21 |
| Improvements made in fulfilling federal environmental obligations | 17–22 |
| **Response to 1996 Audit** | 17–23 |
| Limited progress on the recommendations of the 1996 Phase I audit | 17–23 |
| Improvements are needed in federal-provincial agreements | 17–25 |
| **Conclusion** | 17–25 |
| **About the Audit** | 17–27 |
| **Exhibits** | |
| 17.1 Federal Allocation of Funds Under Phase II | 17–8 |
| 17.2 Total Expected Investments by Type of Infrastructure: Phase I and Phase II | 17–13 |
| 17.3 Frequency of Program Criteria Selected and of Claims Supported by Documentation Under Phase II | 17–14 |
| 17.4 Phase II Projects Involving Private Sector Partnerships and Other Private Sector Linkages | 17–15 |
| 17.5 Local Infrastructure Investment Assistance Provincial Government Cost-Share Ratio (%) Under Canada Infrastructure Works Program and Other Selected Provincial Capital Assistance to Municipalities — 1993–1999 | 17–16 |
| 17.6 Compliance Procedures Used Under Phase II | 17–20 |
| 17.7 Assessment of Program Response to the 1996 Report of the Auditor General | 17–24 |

# Canada Infrastructure Works Program

## Phase II and Follow-up of Phase I Audit

## Main Points

**17.1** The follow-up to our 1996 audit chapter indicates limited progress in addressing the deficiencies we identified in Phase I of the Canada Infrastructure Works Program. Our 1996 observations dealt with the need for clearer definitions of program objectives and project selection criteria, as well as the need for improved information, including better measurement and reporting of job creation. The main area of improvement has been environmental assessments; as well, a start has been made in responding to the need for compliance audits. However, most of our concerns have not been addressed.

**17.2** The Program was implemented within very demanding time frames. Federal and provincial program managers view the program approach positively and regard it as having contributed to strong federal-provincial relations and co-operation. The Program's output from 1994 to date has involved mobilizing and co-ordinating the efforts and resources of three levels of government and other partners to plan and implement more than 17,000 engineering and construction projects nation-wide.

**17.3** Our audit of Phase II indicates that, from an overall federal perspective, the Program is essentially "running on trust" with little accountability. Criteria for project selection were not clearly defined, and many of the files we reviewed lacked persuasive evidence to justify applicants' claims relating to selection criteria. In most cases, federal officials recommended projects for approval without ensuring that applicants' claims were adequately supported.

**17.4** We found that federal officials relied on municipal and provincial certifications with respect to costs claimed. The implementation of compliance audits, which, among other things, represent a means of obtaining assurance on the adequacy of financial controls, has been slow.

**17.5** There are incentives for provincial governments to transfer their budgetary resources away from their own programs to the federal infrastructure initiative. However, this program substitution is not inevitable; in two provinces, for example, safeguards were put in place in Phase I to limit the "substitution effect". Any substitution that does occur reduces the Program's infrastructure development and job creation benefits. The Treasury Board Secretariat has not set out the limitations of estimates of employment generated by the Program in reporting them to Parliament.

### Background and other observations

**17.6** The Canada Infrastructure Works Program was introduced by the federal government in 1994 as a $6 billion temporary shared-cost initiative with the objectives of assisting in the maintenance and development of infrastructure in local communities and the creation of employment. In 1997, the government announced an extension (Phase II), involving an additional $425 million provided by the federal government, to be matched by a further $850 million from the provinces and other partners. For the most part, construction under both phases was scheduled to be completed by 31 March 1999.

**17.7** Construction of roads, bridges, and water and sewer networks predominated in both phases, accounting for well over 60 percent of total expenditures. Community, cultural and recreational services were of less significance in Phase II.

**17.8** The Canada Infrastructure Works Program is a contributions program, with a requirement for the payment of federal funds to be subject to performance conditions being met (such as project targeting) and to compliance with program requirements. However, our examination of the project files indicated that program officials have not adequately addressed these concerns.

**17.9** Finally, we found that progress has been made under Phase II in conforming with the requirements of the *Canadian Environmental Assessment Act*. However; where negative environmental effects have been identified, the specification and monitoring of mitigation measures remain inadequate.

**The Treasury Board Secretariat indicated that although improvements can and should be made in any future such programs, the chapter presents an inappropriately negative view of what was a highly successful program in terms of results and one that made a positive contribution to federal-provincial-municipal relations in Canada.**

## Introduction

### Objectives and structure of the Program

**17.10 The Program was introduced in 1994 to help develop local infrastructure and create employment.** The Canada Infrastructure Works Program was implemented as a temporary shared-cost program in 1994 with the objectives of assisting in the maintenance and development of infrastructure in local communities and the creation of employment. For the purposes of the Program, "infrastructure" was defined as "physical capital assets in Canada instrumental in the provision of public services."

**17.11 The Program is a collaborative arrangement.** The federal government is one of several program partners. The others include provincial and local governments, and, in some cases, the private sector. For the purposes of this program, the federal government entered into a separate agreement with each province and territory. Under these agreements, the federal government contributes up to one third of eligible project costs, and the provincial and local governments and other partners contribute the remainder. In the majority of cases, municipalities identified their priorities for infrastructure program funding based on local requirements, and submitted projects for provincial review. Provinces then forwarded projects selected to the federal government for review and approval.

**17.12** While mostly similar in content, the federal-provincial agreements vary somewhat according to province or territory. Generally, they each set out the Program's purpose, the criteria for project selection, and the financial and operational responsibilities of the parties involved. The provinces are responsible for selecting, analyzing and proposing projects for funding. The federal government has the right to approve or reject individual projects proposed.

**17.13** In accordance with the agreements, a joint federal-provincial management committee was established in each province to carry out the responsibilities of the federal and provincial governments. The management committees developed program guidelines for the implementation of the Program in their respective provinces.

**17.14** Although developing and maintaining local infrastructure fall essentially under the jurisdiction of provinces and municipalities, over the years the federal government has frequently provided financial aid. This assistance has taken the form of loans, unconditional transfers of funds (grants) or conditional payments (contributions).

**17.15** The Canada Infrastructure Works Program is a contributions program. This means that the federal government pays if performance conditions and program requirements are met, as specified in the agreements. These requirements have important implications for the Program's accountability regime — in terms of accountability among the partners to the agreements and also accountability to Parliament for expenditures undertaken and results achieved.

**17.16** Originally, the federal government agreed to contribute up to $2 billion, to be matched by $4 billion from provincial and municipal governments and other partners. In January 1997, the government announced a program extension (referred to as Phase II) whereby it provided an additional $425 million to support new infrastructure projects, to be matched by a further $850 million from the provinces and the other partners. Over the course of the two phases, all of the partners are expected to have invested a combined total of $8.3 billion. Under both phases, construction for most projects was

**The federal government is one of several program partners investing a total of $8.3 billion.**

scheduled to be completed on or before 31 March 1999.

**17.17 Six federal departments and agencies take part in the Program.** The lead minister, identified as the Infrastructure Minister, is the President of the Treasury Board. Within the Treasury Board Secretariat, an Infrastructure Office performs a co-ordinating and information-generating role. While each program within the provinces is fairly autonomous, all projects, regardless of the value of the federal contribution, require the formal approval of the Infrastructure Minister.

**17.18** The federal regional development agencies — Western Economic Diversification Canada, Industry Canada, Canada Economic Development for Quebec Regions and the Atlantic Canada Opportunities Agency — implement the programs in their respective provinces. Representatives from each of these organizations sit as federal co-chairs on their respective management committees established under the federal-provincial agreements. In some provinces, while there can be several provincial implementing departments, only one provincial representative sits as the provincial co-chair. Thus, for each province there is a balanced federal-provincial representation, with one co-chair each. In Alberta, a third co-chair was appointed to represent municipalities in an ex officio role with no formal decision-making authority.

**17.19** In addition to the above-mentioned agencies, the Canada Infrastructure Works Program includes the First Nations Infrastructure Initiative, which is administered entirely by Indian and Northern Affairs Canada and has no direct provincial government involvement. Hence, there are no federal-provincial agreements for this initiative; applications for projects are made directly to Indian and Northern Affairs Canada.

Exhibit 17.1

Federal Allocation of Funds Under Phase II

| Recipient | Federal Allocation |
|---|---|
| British Columbia | $51,733,000 |
| Alberta | 34,739,000 |
| Saskatchewan | 11,584,000 |
| Manitoba | 13,688,000 |
| Ontario | 153,020,000 |
| Quebec | 111,645,000 |
| New Brunswick | 11,035,000 |
| Nova Scotia | 14,272,000 |
| Prince Edward Island | 2,373,000 |
| Newfoundland | 10,365,000 |
| Northwest Territories | 1,140,000 |
| Yukon | 408,000 |
| Indian and Northern Affairs Canada (First Nations) | 6,874,000 |
| **Total:** | **$422,876,000*** |

**The difference from $425 million is due to administration costs.*

**Source:** Infrastructure Office

**The allocation of responsibilities between the federal and provincial governments is based on their comparative expertise**

**17.20** The design of the Program recognizes that, in general, the provinces and municipalities are responsible for investments in local infrastructure. At the provincial and municipal levels, there is extensive experience in planning, financing and implementing such investments.

**17.21** In both phases of the Program, federal funds were allocated to the provinces, territories and First Nations based on their respective shares of population and unemployment (see Exhibit 17.1 for Phase II allocations). In each province and territory, and in Indian and Northern Affairs Canada, funds were allocated in a manner that reflected local priorities. This resulted in a variety of allocation methods.

**17.22** Based on their specific priorities and local requirements, individual municipalities and other organizations submitted project applications to the responsible provincial ministry or, in some cases, the joint federal-provincial secretariat. If approved at that level, applications were forwarded to the federal co-chair and the Infrastructure Minister for approval.

**17.23** In general, once the Infrastructure Minister gave final approval for a project, a separate local agreement was made between the province or territory and the municipality or other organization. These local agreements are project-specific, dealing with such matters as eligible costs and contribution limits; they do not involve the federal government directly. First Nations projects are characterized by local agreements between Indian and Northern Affairs Canada and the relevant First Nations community.

### Focus of the audit

**17.24** This audit includes a follow-up to the observations and recommendations presented as lessons learned in the 1996 Report of the Auditor General on Phase I of the Program, as well as an audit of Phase II. Detailed testing for this audit was confined to the $425 million Phase II federal expenditure. Observations and conclusions relating to the follow-up component are clearly identified.

**17.25** The follow-up component is a standard practice of our Office. We chose to undertake an additional audit of Phase II for several reasons. One important reason is the large expenditure involved — $425 million. As well, this audit takes into account experience gained since the first audit. In 1996, the Program had been under way for less than two years. At the time of our examination for this audit, the Program had been in place for more than four years. Finally, and perhaps most important, this audit is an opportunity to identify those practices that have worked well and those that require improvement.

**17.26 Objectives.** Specifically, this audit set out:

- to determine whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works agreements;
- to determine the adequacy of the financial and management regime for Phase II;
- to determine the extent to which Phase II conforms with the requirements of relevant environmental law; and
- to determine the extent to which the observations and recommendations made in the 1996 Report of the Auditor General, which could have been acted upon in the program extension, have been acted upon.

**17.27 Joint undertaking.** We undertook some of our Phase II audit work jointly with the Offices of the Auditor General of Nova Scotia and the Provincial Auditor of Saskatchewan. As the Program is a shared federal-provincial responsibility, doing audit work jointly provided an excellent opportunity for a more comprehensive examination in these two provinces. The perspective developed also guided a more in-depth coverage of the Program in the other provinces where we carried out the audit. Along with our fellow members of the Canadian Council of Legislative Auditors, we believe that taxpayers are better served when a total audited picture of a program's expenditures is provided.

**17.28** This chapter presents observations, conclusions and recommendations pertinent to the federal government, our specific jurisdiction. The reports of the Auditor General of Nova Scotia and the Provincial Auditor of Saskatchewan are expected to be tabled with their respective legislatures, and will deal with matters pertinent to the provincial governments concerned.

**Some audit work was undertaken jointly with provincial audit offices.**

**17.29** We supplemented the findings from our jointly undertaken audit work in Nova Scotia and Saskatchewan by focussing the rest of our audit on selected provinces. Overall, we selected British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia for audit to ensure representation of all federal implementing departments. This coverage amounted to about 90 percent of the Program's expenditures. For the other provinces and territories, the findings from our audit do not necessarily apply due to possible program differences.

**17.30** For the provinces covered by our audit, we examined a sample of federal project files and many of the corresponding provincial project files. As well, in selected cases, we broadened our review to include an examination of related project files held by municipal governments. We examined the First Nations Infrastructure Initiative in terms of its planning and approval process only.

**17.31** Further details on the audit are presented in **About the Audit** at the end of the chapter.

## Observations and Recommendations

### Program Implementation

**Some program differences exist between Phase I and Phase II**

**17.32** In design, structure and implementation, Phase II of the Program was a continuation of the basic approach developed in Phase I. However, Phase II did contain some modifications. Subsequent to our 1996 Report, federal-provincial agreements were amended in 1997 to add provisions for compliance audit. Stronger controls were added to ensure that federal environmental assessment requirements were met prior to federal approval. Further, in one of the provinces we audited, Phase II was targeted more clearly on traditional infrastructure.

**17.33** Moreover, in Phase II the federal government significantly lowered its level of expenditures. The federal-provincial agreements authorizing additional funding for Phase II specified that construction activities had to be completed within one year. The period for project completion was subsequently extended to two years, compared with the five years allowed in Phase I. The shorter lead times in Phase II, coupled with a lengthy approval process (see paragraph 17.39), resulted in many projects receiving project approval after construction had begun.

**Both phases of the Program were implemented quickly**

**17.34** As we observed in our 1996 Report, the speed with which Phase I of the Program was implemented compared favourably with similar collaborative arrangements. Phase II was also implemented quickly, with most provinces signing amending agreements within a few months of its announcement. When the new one-year time frame for completion of construction was seen to create difficulties for implementation, the Infrastructure Minister announced a one-year extension in August 1997. However, project contracts between the provinces and local municipalities could not reflect the new completion dates until the federal-provincial agreements were amended several months later.

**Program officials view the program approach very positively**

**17.35** Provincial and federal program officials in every province that we audited declared the Program a success in creating positive federal-provincial relations and directing funds to needed infrastructure investment. From early 1994 to date, the Program has mobilized and co-ordinated the efforts and resources of three levels of government (as well as the other partners involved) to plan and implement more

than 17,000 engineering and construction projects nationwide.

**17.36** Officials believe that the Program's approach — combining the specific expertise of the two levels of government within an established framework of federal-provincial agreements — has been largely responsible for this achievement. The provincial governments are responsible for the day-to-day running of the Program, while the federal government has a less operational role. Consequently, the federal government has not become involved in project nomination or in second-guessing the decisions made at other levels on the screening and selection of initial project proposals.

**17.37** Program managers we spoke to believed that there were significant savings as a result of reduced overlap and duplication of activities between the two levels of government. Such savings have not been measured to date. Moreover, any savings identified would need to take into account our assessment, as identified in this chapter, of the current financial management and control arrangements.

**Effort was devoted to ensuring that participation of all partners was recognized**

**17.38** The federal-provincial agreements provided for the careful co-ordination of joint public announcements and the posting of signs identifying projects as joint federal-provincial ventures. Subsequently, considerable administrative effort was directed to ensuring that these provisions were carried out. This recognition of the partners' efforts has helped foster positive relationships.

**17.39** In some provinces, each project nomination submitted to the Infrastructure Minister for approval was forwarded to the appropriate provincial and federal members of Parliament for their input. As well, in all provinces, final federal approval could not be given until environmental assessment requirements had been fully met. In the two provinces where we examined these processes in detail, we found that all of these requirements combined added approximately two months to the approval process.

**17.40** We were told that in some provinces applicants could proceed at their own risk prior to federal approval because of the tight time frames involved. However, if for any reason a project was not approved, the federal government's share would not be paid. For many of the projects we examined, approval was received after construction had already begun. In our opinion, the fact that construction can begin beforehand reduces the significance of the role of the federal approval process.

**17.41** The lengthy project approval process frustrated program officials. In our view, it would have been reasonable to streamline the delegation of approvals based on risk and level of expenditure, so that the Infrastructure Minister need not have approved every project application. In all likelihood, this would have improved the turn-around time for approvals.

**17.42 In future programs of this type, the project approval process should be based on a more streamlined approach, with delegation of authority for approvals based on risk and level of expenditure.**

***Treasury Board Secretariat's response:*** *In principle, streamlining of the project approval process is desirable. In practice, the process is one of the elements that must be negotiated with the other program partners and we would endeavour to do so.*

**The Program has mobilized the efforts and resources of three levels of government (and other partners) to implement more than 17,000 construction projects.**

## Funding, Targeting and Impacts of the Program

The construction of roads, bridges, and water and sewer networks has predominated in both phases of the Program.

### Funds were spent largely on traditional infrastructure

**17.43** The federal government has indicated that, with the additional funding under Phase II, overall infrastructure investments for the Program will exceed $8.3 billion — with the federal contribution amounting to $2.4 billion. As shown in Exhibit 17.2, the construction of roads, bridges, and water and sewer networks has predominated in both phases of the Program. However, there has been less emphasis on community, cultural and recreational services in Phase II. In both phases, there has been a diversity of project size and type. In Phase II, for example, the largest project is a $45.8 million renovation and addition to the Cummer Home for the Aged in Toronto, Ontario. At the other end of the spectrum, $322 was spent on picnic tables for the community of Birch Cove, Alberta.

**17.44** Projects undertaken by First Nations communities differed somewhat from those in the rest of the country, owing to distinct community differences. There are over 600 First Nations, 75 percent of which are located in communities of less than 1,000 people. Most of these communities can be described as rural or remote, with vastly different infrastructure needs from those of other Canadian communities. First Nations projects often focussed on building or expanding their community's basic infrastructure.

Most project files we examined lacked persuasive evidence to support the claims of project applicants relating to selection criteria.

### Program targeting is weak

**17.45** As we did for Phase I, we examined the basis on which federal officials recommended the approval of individual projects. Specifically, we looked for evidence that federal officials had obtained assurance that their provincial counterparts were receiving and analyzing supporting information to help ensure that the projects approved were in line with the Program's objectives.

**17.46** As we found in 1996, the project selection criteria most frequently cited in support of project proposals related to providing additional infrastructure facilities in response to local needs, upgrading existing infrastructure to meet community standards, and creating short-term employment (see Exhibit 17.3). In 1996 we noted that the meanings of many of the terms relating to these and other selection criteria were not clear. We found that situation unchanged.

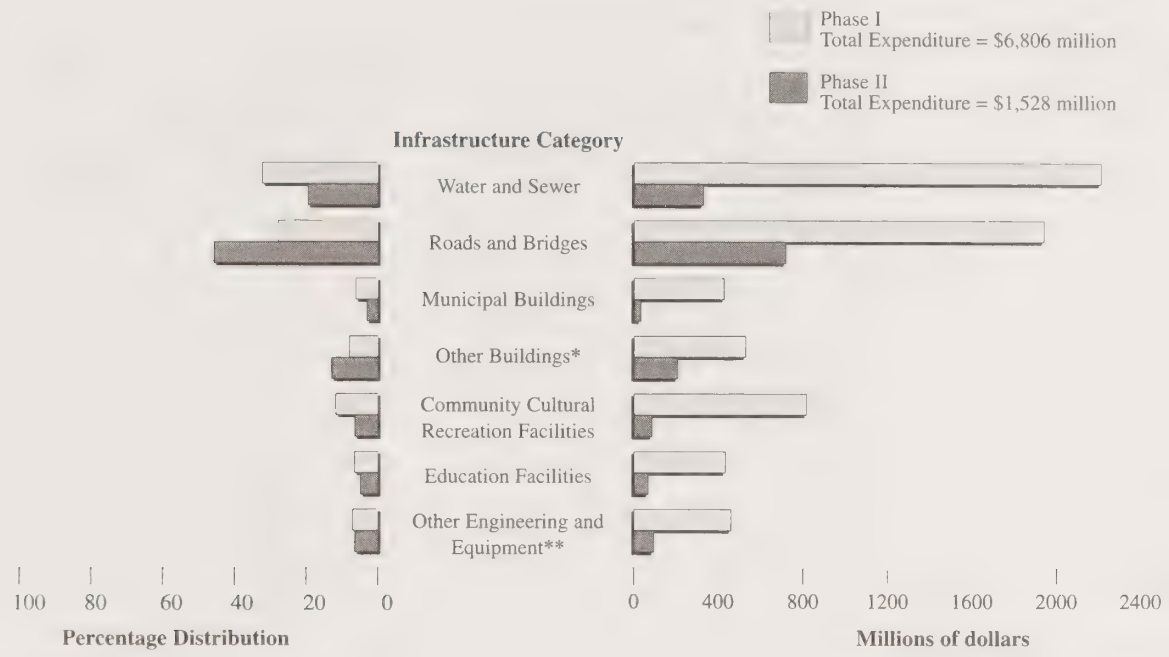
**17.47** We found that the operational definition of the term "incremental investment" can differ across provinces and is not always fully in line with the Program's overall objectives. Similar concerns apply to the meaning of "employment creation". We found no clear identification of what "community standards" mean in practice or how such standards could be assessed in applying project selection criteria. Finally, as noted in paragraph 17.54, even the term "infrastructure", which determines the basic scope of the Program, would benefit from clarification.

**17.48** Most of the federal and provincial project files we examined lacked persuasive evidence to support the claims of project applicants relating to selection criteria. Although some files for large and complex projects contained more detailed analyses, most applications were prepared in qualitative and often vague terms, with no information, other than certifications by project applicants, to back up claims that criteria were being met. In most cases, federal officials endorsed provincial assessments without ensuring that provincial officials had received and analyzed the appropriate information or requiring direct supporting information themselves.

**17.49** In our view, the federal government accepted the responsibility for approving projects and is accountable to Parliament for program results.

Exhibit 17.2

**Total Expected Investments by Type of Infrastructure: Phase I and Phase II**




* Other Buildings includes various structures such as research and development centres, agricultural facilities, labs, hospitals, day-care centres and women's shelters.

** Other Engineering and Equipment includes docks, piers, dams, landfills, recycling bins, emergency vehicles, communications systems, and other works.

**Examples of Small and Large Phase II Investments Under the Agreements Examined**

**Small**

- Replacement of picnic tables in recreational area, Birch Cove, Alberta ($322)
- Repair of a well, Duff, Saskatchewan ($500)
- Rehabilitation of a gravel street, Highgate, Ontario ($1,211)
- Band office addition, West Point, Indian and Northern Affairs Canada ($39,690)
- Repair of Trunk Road Bike Route, Maple Ridge, British Columbia ($2,563)
- Assessment of water and sewer systems, St-Adolphe-d'Howard, Quebec ($10,640)
- Extension of waterline to South River serving a commercial area, Antigonish, Nova Scotia ($18,000)

**Large**

- Widening and rehabilitation of Idylwyld Drive in Saskatoon, Saskatchewan ($3.7 million)
- Water and sewer site development, Peguis, Indian and Northern Affairs Canada ($4.9 million)
- Design and alignment of a collector road, Halifax, Nova Scotia ($4.7 million)
- Rehabilitation of residential roads, sidewalks and curbs, Edmonton, Alberta ($7.7 million)
- Purchase of rapid transit buses, BC Transit, British Columbia ($21 million)
- Re-construction of the Dorval traffic circle, Dorval, Quebec ($36 million)
- Renovations and additions to Toronto's Cummer Home for the Aged, Ontario ($45.8 million)

Source: Infrastructure Office, January 1999

Consequently, there was a need for federal officials to make recommendations on proposals either on the basis of assurance that their provincial counterparts had carried out a review of adequate supporting information or on the basis of their own review. While some measure of assurance would be required for every project, the depth and detail of review could be expected to vary, depending on risk and the level of expenditure for a particular project.

**17.50 In future programs of this type, the government should ensure that project selection criteria are clearly defined, and that persuasive information and analyses are available and have been assessed to support recommendations for project approval.**

Exhibit 17.3

**Frequency of Program Criteria Selected and of Claims Supported by Documentation Under Phase II**

| Criteria | Applications Where Claimed (percent) | Claims with Supporting Documentation (percent) |
|---|---|---|
| Short-term job creation | 98 | 3 |
| Modernization of infrastructure/ brings up to community standards | 90 | 5 |
| Investment is accelerated/incremental | 85 | 4 |
| Improve environmental stability/quality | 40 | 12 |
| Increase economic competitiveness | 34 | 5 |
| Long-term job creation | 17 | 17 |
| Innovative financing used | 16 | 7 |
| Long-term worker skills enhanced | 10 | 0 |
| Innovative technologies used | 5 | 22 |

The project criteria included above comprise the full range of criteria for the Program as a whole. However, it should be noted that some of the provinces did not incorporate all of the criteria in their programs as established by the federal-provincial agreements.

**Source:** Office of the Auditor General of Canada; File review (federal and provincial project files)

***Treasury Board Secretariat's response:*** *We agree that project selection criteria should be clear in any further program and that projects would need to be assessed against them.*

**17.51** In the case of Indian and Northern Affairs Canada, program officials told us that there was a requirement that the First Nations Infrastructure Initiative should accelerate the implementation of supported projects by at least three years — the incrementality requirement. Once approved, First Nations infrastructure projects were administered under existing departmental capital program activities.

### The implications of private-sector-related projects need to be addressed

**17.52** As noted earlier, for the purposes of the Program, "infrastructure" means "physical capital assets in Canada instrumental in the provision of public services." Under Phase I, this broad definition was occasionally used to justify investment assistance to firms and corporations involved in private sector and quasi-private-sector activities. Under Phase II, this definition of infrastructure has continued to be applied. This has resulted in support for some projects involving private sector partnerships and other linkages to the private sector.

**17.53** As part of our audit of Phase II, we conducted a review of project descriptions in the Infrastructure Office database, and examined project files where the description indicated possible private sector connections. In addition, we obtained management representations on the nature and extent of such investments. We extended our examination to any files identified by this means.

**17.54** We found that federal government program expenditures in support of the projects we identified were approximately $10 million. This included funding such diverse projects as the

construction of a research laboratory and tourist facilities (including the construction of a convention centre and an artificial lake), and upgrading a road leading to a mine (see Exhibit 17.4). Although these investments made up only about two percent of total federal funding under Phase II, in our judgment the design of the Program would have benefited from more precise clarification at the outset of the coverage of infrastructure assistance that was intended, as well as possible implications.

**17.55** For example, our examination raised the possible issue of unfair competition resulting from direct or indirect assistance to some firms and not to others. Such government assistance may unfairly tilt the playing field against other competing firms that do not benefit from the assistance provided by the Program. In our examination of the program guidelines and federal-provincial agreements, and our interviews with program officials, we did not find any evidence that program designers had considered these or other implications of funding projects involving private sector partnerships and other linkages to the private sector.

**17.56 In future programs of this type, the government should clearly define the coverage of the term "infrastructure". If that coverage allows for support of projects involving private sector partnerships and other private sector linkages, the government should ensure that program guidelines specifically address related implications.**

***Treasury Board Secretariat's response:*** *The recommendation implies that the term "infrastructure" was not clearly defined. It was, and it did allow for support of private sector initiatives. However, care was taken to ensure that none of the projects that had private sector*

Exhibit 17.4

**Phase II Projects Involving Private Sector Partnerships and Other Private Sector Linkages**

**British Columbia:**

- B.C. Telephone Company: installation of basic cable telephone service using fibre optic feeder and copper distribution cables. Canada: $121,500, B.C.: $121,500, B.C. Telephone: $550,000 to be partly offset by a surcharge to residents. (Note: There are five other B.C. Telephone projects valued at $3.2 million.)

**Ontario:**

- Agrium Mines Limited: 40-km road upgrading to provide access initially for construction of a phosphate mine/mill and for personnel access and service vehicles during operation. Canada: $1.7 million, Ontario: $1.7 million, Agrium: $1.7 million.
- Sunnybrook Health Science Centre: construction and renovation of two floors of an existing facility with a private-sector partner to build research laboratory facilities to develop cancer vaccines. Canada: $3 million, Ontario: $3 million, Sunnybrook Health Science Centre: $3 million.

**Quebec:**

- Centre Nouvel-air Matawinie Inc.: development of a recreational tourist facility on Lake Taureau including the construction of an artificial lake, buildings, pathways and trails, and parking facilities. Canada: $1.3 million, Quebec: $1.3 million, Centre Nouvel-air Matawinie Inc.: $1.3 million.
- Place de la Cité Internationale Phase III Inc.: construction of two underground passages to the Cité Internationale de Montréal. Canada: $3.2 million, Quebec: $3.2 million, Cité Internationale: $2.1 million.
- Société structurante de Shawinigan inc.: construction of a convention centre in the City of Shawinigan to assist tourism sector. Canada: $657,678, Quebec: $657,678, City of Shawinigan: $431,290, Société structurante de Shawinigan inc.: $400,000.

**Nova Scotia:**

- Meat Cove Fisherman's Association: wharf repairs. Canada: $8,333, Nova Scotia: $8,333 and Meat Cove Fisherman's Association: $8,333.

**Source:** Office of the Auditor General of Canada: File review and Infrastructure Office

*involvement (i.e. two percent of federal funding under Phase II) resulted in unfair competition.*

**Incentives exist to substitute Canada Infrastructure Works Program funds for regular, ongoing provincial infrastructure expenditures**

**17.57** Besides the assistance provided under the Canada Infrastructure Works Program, provincial governments have been providing, through their own programs, ongoing financial support to municipalities for local infrastructure investment. During the 10-year period before the introduction of the Program, ongoing construction and repair expenditures at the local municipal level averaged $5.6 billion annually.

**17.58** Exhibit 17.5 outlines examples of provincial government programs providing ongoing assistance to municipalities for infrastructure investment, based on programs in place

Exhibit 17.5

**Local Infrastructure Investment Assistance**
**Provincial Government Cost-Share Ratio (%) Under Canada Infrastructure Works Program and Other Selected Provincial Capital Assistance to Municipalities**
**1993–1999**

| | Provincial Government Cost-Share Ratio | | | |
|---|---|---|---|---|
| | Canada Infrastructure Works Program * | | Selected Provincial Government Infrastructure Programs | |
| | | (percent) | | (percent) |
| **Government of Alberta** | Canada–Alberta Infrastructure Works | 33 | Basic Capital Grants | 75 |
| | | | Street Improvement Program | 75 |
| | | | Secondary Highway Partnership Program | 65–85 |
| | | | Municipal Water/Waste Water | Up to 75 |
| **Government of Ontario** | Canada–Ontario Infrastructure Works | 33 | Municipal Affairs Unconditional Grant | 100 |
| | | | Homes for Aged | 50 |
| | | | Elderly Persons Centres | 30 |
| | | | Educational Capital Grants | 60–75 |
| | | | Grants for Hospital Construction/Renovation | 66 |
| | | | Northern Ontario Industrial Infrastructure | 75 |
| | | | Roads/Bridges | 50–80 |
| **Government of Quebec** | Canada–Quebec Infrastructure Works | 33 | Culverts/Sewage | 50 |
| | | | Water Purification | 50–85 |
| **Government of Nova Scotia** | Canada–Nova-Scotia Infrastructure Works | 33 | Provincial Capital Assistance Program | 50 |
| | | | Unconditional Capital Grants | 100 |

* Projected contribution — actual contribution by provincial government may be somewhat higher or lower.

**Source:** Alberta: Ministry of Transportation and Utilities
Ontario: Provincial Financial Assistance to Municipality Boards and Commissions 1992–93
Quebec: Ministère des Affaires municipales
Nova Scotia: Nova Scotia Department of Housing and Municipal Affairs

for either some or all of the period from 1993 to 1999. This covers the period immediately before and during the implementation of the Canada Infrastructure Works Program. In most cases, the provinces' own programs require provincial governments to outlay half or more of the eligible costs of municipal infrastructure investments. However, when projects are funded under the Canada Infrastructure Works Program, provincial government expenditures average only about one third of the total investment. Because of the different provisions of federal and provincial programs, we believe there are financial incentives for provincial governments to transfer their budgetary resources away from their own regular programs to the national infrastructure program.

**17.59** The Canada Infrastructure Works Program is meant to encourage additional investments in local infrastructure — a condition necessary to increase infrastructure development and create employment. For this reason, if provinces simply switch funds between programs, the national program's intended effects are reduced.

**17.60** The government's own 1996 evaluation of the Program expressed concerns about the lack of effort to enforce the requirement to encourage additional investment levels. The evaluation identified this as a "program weakness". We believe that the possibility of program substitution deserves attention as a key part of this issue.

**17.61** Identifying the actual extent of program substitution that may have occurred is an extremely difficult task, and one that the current audit could not address in the absence of detailed data from other program partners. However, in our examination of project files, we found evidence that some projects approved under the Canada Infrastructure Works Program may have been funded under programs that would have been more costly for the provinces involved. Although we would not have expected project files automatically to contain such information, we found specific cases where projects that would likely otherwise have received approval for funding under existing provincial programs, or had actually received approval, were ultimately funded under the Canada Infrastructure Works Program. We believe that this file evidence, coupled with the financial incentives identified in Exhibit 17.5, suggests that program substitution is an issue that needs to be addressed in program design.

**17.62** The period during which the program functioned featured a lot of general budget cuts by provincial governments, including cuts in provincial capital assistance programs. At the same time, however, the federal initiative was attempting to increase levels of infrastructure investment. In this context, substitution would represent a rational response by provinces to the national infrastructure program. It does not represent a violation of the Program's terms and conditions; rather, it responds to a design element that program developers may not have sufficiently considered beforehand. To the extent that it occurs, program substitution directly affects the achievement of the Canada Infrastructure Works Program's primary objectives: infrastructure development and employment creation that would not have occurred otherwise at that time.

**There are financial incentives for provincial governments to transfer budgetary resources from their own regular programs to the national infrastructure program.**

**Program substitution directly affects the achievement of the Program's primary objectives: infrastructure development and employment creation.**

**Safeguards are needed to limit program substitution**

**17.63** We examined the provisions established within federal and provincial programs to identify those that could act as safeguards to limit substitution between federal and provincial programs. We found such provisions to be the exception rather than the rule.

**17.64** The types of provisions used in Quebec and by the Saskatchewan Association of Rural Municipalities in

Phase I of the Program provide examples of safeguards that can deter program substitution. In 1996, we reported that Program expenditures in Quebec had to be in addition to a minimum level of ongoing investment that municipalities were required to maintain in order to be eligible for assistance under the Program. In these circumstances, we believe that substitution would be necessarily limited.

**17.65 In future programs of this type, the government should ensure that there are safeguards to limit the substitution of program expenditures for expenditures that would otherwise have been undertaken by the programs' partners.**

How much job creation can be attributed to the Program's activities remains unclear.

***Treasury Board Secretariat's response:*** *While not disagreeing with the recommendation per se, the government disagrees with the implication that there were no safeguards to limit substitution in Phases I and II. There were and they worked: after two audits and one follow-up, no evidence of significant substitution has been presented.*

### Continuing questions about job creation estimates

**17.66** The federal government claims that about 130,000 short-term jobs have been created since the Program began in 1994; 24,000 of these are associated with Phase II. The estimate of the short-term employment impacts is basically derived from Statistics Canada's data on the employment effects associated with given levels of investments. The Statistics Canada figures are based on the historical track record of investment expenditures in generating direct employment, both on-site (where the infrastructure is being developed or upgraded) and off-site (supplies and services provided).

**17.67** Our 1996 audit recognized a number of strengths derived from the application of the Statistics Canada employment estimation model. However, we also questioned whether it was appropriate to rely on this approach alone. We noted that the assessment of the Program's employment impact would be more balanced if more than one estimation approach were used, particularly for individual projects at the local level.

**17.68** We found that the government has not taken any steps either to improve the estimates of employment actually created by the Program, or to clearly set out the limitations of employment estimates in reporting them to Parliament. The Treasury Board Secretariat's Performance Report to Parliament for the period ending 31 March 1998 indicates simply that over 128,000 jobs have been generated by the Program. It provides no information about such matters as the source of the estimates, the duration of the jobs or whether all these jobs can be attributed to the Program.

**17.69** The answer to the question of how much job creation can be attributed to the Program's activities remains unclear. If, for example, the Program's funding of infrastructure investment resulted in part in substituting Canada Infrastructure Works Program expenditures for regular, ongoing provincial program expenditures, then the Program's net job creation effects would be correspondingly reduced.

**17.70** At the time of our examination, we noted a project where Canada Infrastructure Works Program funds were supplemented by another federal program. Yet until we brought this to the attention of program management, all of the estimates of employment benefits were attributed to the Canada Infrastructure Works Program alone. Subsequent changes were made to the project that dealt with the issue we identified. Where other programs contribute to an infrastructure project, the employment associated with that project cannot be attributed solely to the Canada Infrastructure Works Program.

**17.71** In our judgment, the absence of a more thorough assessment of the Program's job creation effects is a crucial omission. The lack of such an assessment erodes the reliability of program performance information, which is essential for adequate accountability to Parliament and Canadians. Furthermore, without adequate performance information there is a risk that program design features of questionable effectiveness will be repeated, should any decision be made to undertake a similar initiative in the future.

**17.72 In its Performance Report, the Treasury Board Secretariat should provide Parliament with information on the employment effects of the Canada Infrastructure Works Program that clearly sets out its sources and limitations.**

***Treasury Board Secretariat's response:*** *We agree that Parliament should be provided with complete information on the employment effects of the Canada Infrastructure Works Program.*

## Financial and Management Controls

### Insufficient attention to ensuring control

**17.73** As noted earlier, the Canada Infrastructure Works Program is a contributions program. The payment of federal funds is therefore dependent on performance conditions being met and on compliance with program requirements, which include conformity with program targeting and appropriate control of public funds.

**17.74** Our current audit has confirmed and extended the findings from our 1996 Report: from an overall federal perspective, the Program is essentially "running on trust", with insufficient attention given to ensuring adequate control of public funds. In several of the provinces we examined, public moneys have been released to municipalities for work undertaken without provincial officials demanding invoices or proof of payment (see Exhibit 17.6). Without this documentation, it is impossible to determine whether claims have been made for expenditures specifically disallowed by the Program, or even whether the expenditures were actually made.

**17.75** In every province examined, we observed that federal officials relied on provincial and municipal certifications that the projects were implemented and that costs were claimed in accordance with the federal-provincial agreements and guidelines. The implementation of compliance audits, which represent a means of verifying certifications, has been slow. Compliance audits have almost always taken place after all projects were approved, and in many cases after projects were completely constructed and funds paid out.

From an overall federal perspective, the Program is essentially "running on trust", with insufficient attention given to ensuring adequate control of public funds.

### Implementation of compliance audits has been slow

**17.76** In our view, timely compliance audits are required to provide assurance to federal and provincial/territorial partners that appropriate financial and management controls are in place and working as intended. Although we recognize that resources are inevitably limited, we believe that timely audit is particularly important where the up-front activities of a program are based on certification only. Federal Treasury Board policy, with respect to terms and conditions for contributions, states: "5.2 (b) Where less control is required, the description of allowable expenditures may be more general and audited assurance such as an audit report may be substituted for receipts and detailed statements of expenditures."

**17.77** With the exception of Quebec, and to a lesser extent British Columbia, the Phase II compliance audits are scheduled for completion only after a considerable amount of time has passed

since the start of the Program. Their completion averages approximately two and one-half years into the Program — six months before most final payments are scheduled to have been processed. In our view, this delay creates two problems. First, if the audits were to identify required changes in program approach, the opportunity to implement these changes might be missed altogether. Second, we are in agreement with some program officials who maintain that if the audits were to identify ineligible costs paid out, it would be more difficult to recover these moneys, as the final payments (including the release of the holdback) would likely have occurred for many of the projects.

**Compliance audits that have been undertaken illustrate the value of a timely and rigorous audit regime.**

**17.78** Compliance audit work that had been undertaken for both phases of the Program at the time of our audit illustrates the value of a timely and rigorous audit regime. For example, a provincial compliance audit of a Phase II project identified $121,000 of $516,000 in expenses claimed as potentially ineligible. Upon resolution by the applicable management committee, including subsequent changes to the original project approval date, $49,000 was determined to be ineligible. In still another case, auditors raised questions about $279,000 of $1 million in expenses claimed. As a result of this, the auditors recommended that the provincial ministry concerned

Exhibit 17.6

**Compliance Procedures Used Under Phase II**

| Province | Payment of Claims | | Compliance Audit of Phase II |
|---|---|---|---|
| | Assurance (Federal) | Verification of Invoices (Provincial) | |
| British Columbia | No | No | Ongoing; completed for selected projects as time and resources permit |
| Alberta | No | Only small communities; large communities that represent 65% of expenditures are not verified | Planned completion: Fall 1999 |
| Saskatchewan | No | No | Planned completion: Fall 1999 |
| Ontario | Detailed claim form for most projects provides information on cost eligibility | No for most projects; however, varies by implementing department | Planned completion: Fall 1999 |
| Quebec | No | Yes for all projects; ineligible expenses deducted from claims. In addition, compliance audit of a sample based on risk and materiality | Ongoing; completed prior to final payment for selected projects |
| Nova Scotia | No | Yes for all projects; ineligible expenses deducted from claims | Planned completion: Summer 1999 |

**Source:** Office of the Auditor General of Canada; File reviews, interviews and review of departmental audit plans

request supporting documentation for the next claim.

**17.79** During our own examination of Phase II project files, we noted that both levels of government had paid for some regular, ongoing provincial and municipal worker salaries. Under the Program, for these salaries to be eligible, it had to be demonstrated that these government workers would have been laid off or that they were hired specifically as a result of the project approved. However, in 25 of 167 projects examined, approximately $2.5 million in salaries was paid out without adequate assurance that they were incremental.

**17.80** In our view, the federal partner needs assurance that all costs claimed and paid out are eligible as specified in the federal-provincial agreements and program guidelines established for each of the provinces. Because it may be more difficult to recover funds once they have been paid out in full, we urge that a timely review take place in much the same manner as undertaken by the Province of Quebec. In this province, a sample of projects is selected based on risk and materiality, and is audited prior to the final payment. If an adjustment is required, the amount is deducted from the final payment.

**17.81 In future programs of this type, the government should ensure that agreements among partners make adequate provision for rigorous and timely compliance audits. Such provisions should clearly assign responsibilities among partners, and specify the coverage, timing and reporting of audits, along with resource levels to be allocated to the compliance audit function.**

***Treasury Board Secretariat's response:*** *Compliance audits are a requirement in Phase II and are either completed or under way in all provinces. As Canada Infrastructure Works Program payments are made from one order of government to another, and as these governments have a range of ongoing financial transactions, the risk of not being able to recover any overpayments is minimal.*

**Insufficient assurance of value for money**

**17.82** We found little evidence in the project files we reviewed to indicate that federal officials had looked for assurance that assessments of the technical and financial feasibility of project proposals had been completed by provincial officials. Such assessments would help to establish the technical feasibility of the infrastructure project proposed and to determine whether there are lower-cost alternatives and whether the cost estimates provided in the application are reasonable. In short, such assessments would help ensure value for money.

**17.83** The federal-provincial agreements have provisions that limit the possibility of cost overruns being paid. However, we observed several cases where amendments had been made to cover such extra costs. These cases may point to a lack of adequate costing in project proposals. In still another instance, an internal audit identified an approved project with construction standards that were beyond provincial standards. In this case, the issue was dropped, as matters relating to construction standards were not identified during the approval stage. With an up-front assessment, these costs might well have been avoided.

**17.84** When we raised these issues with program officials, they claimed that establishing such controls for all projects would add significantly to program operating costs. A possible solution would be to use a selective assessment process tied to the value of the projects concerned, along with a risk assessment based on the individual municipality's track record for infrastructure investment. We do not suggest that the federal government needs to carry out the assessments itself; rather it

**In all the provinces examined, environmental assessments were undertaken before final project approval.**

needs assurance that a system is in place and operating adequately.

**17.85** The federal-provincial agreements specify that contracts must be awarded and administered according to provincial administrative, management and contract procedures. This may or may not include the requirement that all contracts be tendered. Among the provinces we examined, only Saskatchewan had guidelines requiring project contracts to be tendered.

**17.86** In the majority of the federal and provincial files we examined, we found no information to indicate whether tendering had taken place. In a limited number of cases, however, partial or indirect references in file material showed that the projects had been tendered. Overall, except in the case of one Ontario government implementing department, the project files provided little information about whether or not this control was implemented.

Selective verification of the implementation and effectiveness of mitigation measures would provide additional assurance.

**17.87 In future programs of this type, the government should ensure that project proposals are assessed to provide an adequate level of assurance with respect to technical feasibility and financial requirements.**

***Treasury Board Secretariat's response:*** *The program design takes advantage of the fact that local and provincial governments have much experience in carrying out infrastructure projects and that they are paying two thirds of the costs. Thus they are both competent and motivated to obtain value for money. Further detailed monitoring by the federal partner would be unlikely to improve the return on the taxpayers' investment.*

**Improvements made in fulfilling federal environmental obligations**

**17.88** Unless excluded under the Exclusion List regulations of the *Canadian Environmental Assessment Act,* all projects recommended for approval are subject to a federal environmental assessment in accordance with that Act. For the purposes of the Canada Infrastructure Works Program, an environmental assessment involves examining the proposed project to ensure that its potential impacts on the environment are identified. In those cases where potential negative impacts are identified, the process requires project proponents to specify the measures they will take to mitigate them. The federal authorities are responsible for ensuring that these assessments are undertaken, including the identification and monitoring of mitigation measures.

**17.89** More than half of all Phase II projects did not require environmental assessments. Where they were required, the federal project files in all of the provinces we examined contained evidence that they were undertaken before final federal project approval. As we found in 1996, procedures and documentation varied among the departments. However, for the most part, we noted considerable improvements in the thoroughness of documentation and analysis undertaken for Phase II projects. Unfortunately, we also observed weaknesses in the identification and monitoring of mitigation measures.

**17.90** Mitigation measures are designed to deal with potentially harmful environmental effects. Incorporating these measures during the construction of infrastructure projects increases the likelihood that risks to the environment are effectively mitigated. Their implementation is a necessary condition for the receipt of federal funds, and requires monitoring. Mitigation measures need to be clearly specified, along with the project applicant's responsibility for implementing them.

**17.91** The results of our examination vary by province, with some project files containing little or no information on mitigation efforts required and others providing very complete information.

Project proponents were asked to certify, either directly or indirectly, that mitigation measures had been implemented. However, we found no evidence in the project files we examined to show that federal authorities had verified whether these measures were put in place and were effective. We believe that such verification, carried out selectively, would provide additional assurance that irreparable damage has not been done to the environment. In this context, we note that in most of the provinces we reviewed, compliance audits do not address matters relating to the implementation of mitigation measures.

**17.92** We observed several projects where construction began before federal approval was given, and before an environmental assessment was completed. Because of the short time frame in which Phase II of the program had to be implemented, some provinces informed applicants that they could go ahead with construction. However, the applicants would be responsible for all costs, including any environmental clean-up costs, if the project was not approved. In half of the Ontario projects we examined that required mitigation measures, construction began before the environmental assessment was completed. Two of these projects were entirely constructed before the environmental assessments had been completed. As the mitigation measures had not been specified when construction began, their identification and implementation were left solely to the discretion of the project proponents.

**17.93** Beginning construction before federal environmental assessment and project approval does not contravene the provisions of the *Canadian Environmental Assessment Act*. However, it contravenes the spirit of the Act, as irreparable environmental degradation effects are possible. We are concerned that, in many cases, environmental assessments have not occurred early enough in the project planning and approval process to be an effective means of preventing environmental damage. As we observed in 1996, it may be difficult to withdraw support for projects once funding commitments — albeit conditional — have been made.

**17.94 In future programs of this type, the government should ensure that:**

- **environmental assessments are completed early enough to be taken into account in the project planning and approval process;**
- **necessary mitigation measures are clearly identified; and**
- **a system for obtaining assurance of the implementation of mitigation measures is in place.**

***Treasury Board Secretariat's response:*** *We agree that going beyond the specific requirements of the* Canadian Environmental Assessment Act *is desirable, and that the design of any future program should facilitate that. However, the project approval process would need to retain sufficient flexibility to accommodate special situations.*

## Response to 1996 Audit

**Limited progress on the recommendations of the 1996 Phase I audit**

**17.95** We concluded that the government has made limited progress in responding to the recommendations of our 1996 audit of Phase I (see Exhibit 17.7). While some changes were introduced as part of the Program's operational guidelines, weaknesses remain with respect to the definition of key program terms and specification of responsibilities. Although federal-provincial agreements were amended to establish provisions for compliance auditing, the results have been disappointing. For the most part, audit activities still have not produced timely information on compliance with the

**The government has made limited progress in responding to the recommendations of our 1996 audit of Phase I.**

Exhibit 17.7

Assessment of Program Response to the 1996 Report of the Auditor General

| Recommendations Presented as Lessons Learned | Reasonable to Expect a Change in Phase II | Follow-Up Assessment |
|---|---|---|
| **26.132** A limited role by the federal government in the day-to-day implementation of shared-delivery programs should be balanced in relevant agreements by a strong emphasis on:<br>• a clear statement of objectives and well-defined program criteria consistent with their achievement;<br>• clear and comprehensive delineation of the roles and responsibilities of parties to the agreement;<br>• arrangements to help ensure that the federal government has the means to meet its responsibilities and accountability obligations; and<br>• built-in flexibility to permit efficient administrative changes as required. | Yes | • Limited changes were made to the federal-provincial agreements.<br>• Operational processes and procedures remained essentially unchanged for Phase II except with respect to environmental assessment obligations.<br>• Some positive indicators of change included the following:<br>– Ontario changed project priorities to ensure that projects approved were for traditional infrastructure only; no major changes were observed in other provinces examined.<br>– The construction period was extended to two years when the one-year time frame became problematic.<br>– Environmental assessment obligations were fulfilled prior to federal government project approval but improvements related to mitigation measures were needed. |
| **26.133** The Canada Infrastructure Works Program Office, in consultation with implementing departments, should assess the issues related to additional investment requirements and, where appropriate, develop recommendations for future program initiatives of this type. | Yes | • No changes were made to the federal-provincial agreements, reflecting the findings from the Public Accounts Committee Report, where emphasis was on lessons learned for future programs.<br>• Except for the modification to incrementality provisions in Quebec linked to planned investment levels, no major changes were observed for operational process and procedures for Phase II.<br>• The Treasury Board Secretariat best practices forum acknowledged that incrementality can be measured at the municipal level through a more rigorous technique based on comparing actual expenditures with past spending averages.<br>• The government made a commitment to the Public Accounts Committee that incrementality would be taken into consideration for future programs. |
| **26.136** Where the federal government enters into shared-delivery arrangements, it should ensure that it has the information it needs to exercise its responsibilities and accountability obligations on a timely basis. | Yes | • Changes were made to all of the federal-provincial agreements to include a requirement for compliance audit.<br>• Implementation has been slow, resulting in concerns about timeliness in some provinces examined. |
| **26.141** Program managers should identify, and use as appropriate, multiple sources of evidence when estimating the employment effects that can be attributed to programs such as the Canada Infrastructure Works Program. In addition, information on employment effects provided to Parliament should clearly set out its limitations. | Yes | • Reliance continues to rest solely on the Statistics Canada method for employment creation estimates.<br>• Reports on employment effects do not set out limitations. |
| **26.142** Responsible departments should ensure that evaluations of this and similar programs produce credible findings on key impacts and effects. | No | • A reasonable expectation would be that evaluation activities occur once every five years; hence, it would be unreasonable to have expected that another evaluation would have been undertaken at the time of this audit. |

**Source:** Office of the Auditor General of Canada

Program's terms and conditions. There has been no progress on our 1996 recommendation relating to the need to improve the measurement and reporting of job creation effects. Improvements have been made in fulfilling federal environmental obligations, but more work remains to be done.

**Improvements are needed in federal-provincial agreements**

**17.96** The federal-provincial agreements play a pivotal role in the implementation of the Program. We assessed the adequacy of the current agreements in the context of the problem areas identified through our audit, and also based on a comparison with the provisions of other types of federal-provincial agreements.

**17.97** We concluded that in any future program activities of this type, the agreements could be improved in several areas. First, the term "infrastructure" could be defined more clearly. Also, project selection criteria need to be clarified, particularly in support of objectives relating to generating additional infrastructure investment and creating employment.

**17.98** Further, continuing concerns with the timeliness and coverage of compliance audits indicate that a more explicit delineation of the responsibilities of the federal and provincial partners is needed in these areas.

**17.99** Finally, we recognize that the federal government took important steps during Phase I to implement a program evaluation. However, despite evidence of deficiencies from this source, as well as from our 1996 audit and compliance audits, program management has not made the necessary adjustments. Hence, we believe there is a need to incorporate more rigorous and formal provisions within agreements to address problems revealed by feedback on performance.

## Conclusion

**17.100** This audit and our 1996 audit confirm that both phases of the Canada Infrastructure Works Program were implemented quickly. There is no doubt that participants and managers alike view the Program very positively.

**17.101** In this audit, we were particularly concerned to determine whether the Phase II projects conformed to the targeting and project selection requirements of the relevant federal-provincial agreements. Our conclusion is that, overall, there is a lack of clarity in a number of key targeting requirements established as part of the Program's design, including what actually constitutes infrastructure or an incremental investment for the purposes of the Program.

**17.102** The Program's approach may well have produced several benefits; however, there is still a need for adequate financial control and timely, reliable performance information. We have concluded that financial and management controls for this program are inadequate.

**17.103** Grants are unconditional payments made by the federal government to individuals and organizations, whereas the payment of a contribution is subject to performance conditions that are specified in a contribution agreement. The recipient must show that these conditions are being met in order to be reimbursed for specific costs over the life of the agreement. The government can also audit the use of contributions, whereas this is usually not a requirement for a grant. While there can be some blending of the requirements involved, the accountability requirements for contributions are generally more onerous than for grants.

**17.104** The government specifically chose the option of contributions over that of grants as a means of delivering the Canada Infrastructure Works Program. However, we have found that, from an

overall federal perspective, the Program is essentially "running on trust", with little confirmation that performance conditions are being met.

**17.105** Although the positive features of the present program approach cannot be ignored, we believe that certain controls need to be put in place to provide assurance that public funds are spent economically, efficiently and effectively, and that accountability for results is achieved. We do not suggest that the federal government itself needs to exercise up-front controls. It does, however, need assurance that controls are in place and working adequately. In this regard, a rigorous compliance audit function needs to be implemented in a timely manner.

**Certain controls need to be put in place to provide assurance that public funds are spent economically, efficiently and effectively.**

**17.106** The absence of adequate financial and management controls for this program is not the first case where we have identified such problems. Our December 1998 Report, Chapter 25 Transport Canada — Investments in Highways, identified similar concerns. We believe that if the government puts in place a set of conditions, it is reasonable to expect it to institute mechanisms to ensure adherence to those conditions.

**17.107** We found that progress has been made in the extent to which Phase II of the Program conforms to the requirements of the *Canadian Environmental Assessment Act*. We have concluded that the requirements of the Act are being met with respect to assessments of environmental impacts. However, where negative environmental effects have been identified, requirements for specifying and monitoring the implementation of mitigation measures are inadequate.

**17.108** The government has made limited progress in responding to the recommendations of our 1996 audit of Phase I of the Program. Most of our Phase I recommendations addressed issues that could have been pursued under Phase II, but were not. In view of the size of the expenditures involved in Phase II operations, this lack of progress is a source of concern.

***Treasury Board Secretariat's response:*** *Commencing in 1994, Canada Infrastructure Works was at the leading edge of intergovernmental collaboration in the effective delivery of a trilateral program. It has resulted in $8.3 billion being invested in over 17,000 projects across Canada, and involved hundreds of governmental organizations each adding their particular strengths to keep administration costs to a minimum. All of this was accomplished without any financial mismanagement.*

*Unfortunately, the auditors have approached their review as if Canada Infrastructure Works was a standard federal contribution program requiring the traditional amount and type of supervision above and beyond meeting the legal requirements. This fails to recognize that each of the three orders of government involved had investments at stake, each was competent to effect its part of the collaborative program delivery and that each had audit and evaluation capabilities as well as political oversight.*

*Although improvements can and should be made in any future such programs, the chapter presents an inappropriately negative view of what was a highly successful program in terms of results and one that made a positive contribution to federal-provincial-municipal relations in Canada.*

# About the Audit

## Objectives

Our objectives were:

- to determine whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works agreements;
- to determine the adequacy of the financial and management regime pertaining to Phase II;
- to determine the extent to which Phase II conforms with the requirements of relevant environmental law; and
- to determine the extent to which the observations and recommendations made in the 1996 Report of the Auditor General, which could have been acted upon in the program extension, have been acted upon.

## Scope and Approach

We selected British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia for audit in order to ensure geographic representation and coverage of 90 percent of the program's federal expenditures. We examined a sample of federal files and the corresponding provincial files. As well, in selected cases, we broadened our review to include an examination of the corresponding municipal project files. All projects that received a federal contribution of greater than $1 million (56) were examined, with the remainder selected at random and stratified by project class to ensure a comprehensive sample. Altogether, we reviewed 167 federal, 107 provincial and 12 municipal project files.

In addition, because of its unique features, we examined the First Nations Infrastructure Initiative strictly in terms of its planning and approval processes. We did not examine project files.

## Criteria

Our audit was based on the following criteria:

- Actions should have been taken on recommendations made in the 1996 Report of the Auditor General that apply to Phase II of the Program.
- Financial and management control of program expenditures should comply with relevant federal policies.
- Program management should ensure that a program accountability framework is developed and clearly communicated, including assignment of responsibility for the achievement of results.
- Program management should set out clear operational objectives that define "success" and provide the basis for program implementation.
- Program management should measure, monitor and clearly report on results achieved to legislators and within and among federal/provincial partners.
- Program management should be supported by reliable, relevant and timely information on program needs, operations and performance.
- Program processes and procedures and their implementation should further the achievement of program objectives and comply with the terms of the agreements, while controlling costs.

- Program management should ensure that each project has been assessed for potential environmental concerns.
- The Program should be implemented in conformity with the requirements of *The Canadian Environmental Assessment Act,* where applicable.

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 18
Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services

**September 1999**

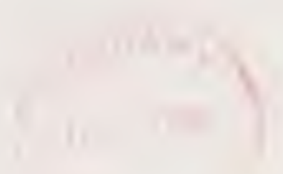
Report of the

# Auditor General of Canada

to the House of Commons

## Chapter 18

Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services



September 1999

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# Chapter 18

## Public Works and Government Services Canada

## Alternative Forms of Delivery: Contracting for Property Management Services

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 18–5 |
| **Introduction** | 18–7 |
| The decision to contract out | 18–8 |
| Buildings included in the AFD initiative | 18–9 |
| Scope of contracts | 18–9 |
| Focus of the audit | 18–9 |
| **Observations and Recommendations** | 18–11 |
| **The Contracting Process** | 18–11 |
| Solicitation, evaluation and award phases were well managed | 18–11 |
| Fairness monitoring provided assurance | 18–12 |
| Specifics of the contracts | 18–12 |
| Innovative fee structure and performance monitoring | 18–14 |
| **Human Resource Issues** | 18–14 |
| **Transition Period** | 18–16 |
| Tasks still remain to be completed | 18–16 |
| **Expected Savings** | 18–17 |
| Determining the cost base | 18–18 |
| Obtaining expected quality and quantity of services | 18–18 |
| **Environmental Issues in the Contract** | 18–19 |
| **Conclusion** | 18–19 |
| Some lessons learned | 18–20 |
| **About the Audit** | 18–21 |
| **Exhibits** | |
| 18.1 Milestones in Contracting Out Property Management | 18–8 |
| 18.2 Building Portfolios Offered Under the AFD Initiative | 18–10 |
| 18.3 Scope of AFD Contracts for Each Portfolio | 18–11 |
| 18.4 Fairness Monitoring – Opinions on the Fairness of the Contracting Process | 18–13 |
| 18.5 Bids of the Successful Contractor | 18–14 |
| 18.6 Performance Indicator Framework to Monitor and Measure Contractor's Performance | 18–15 |

# Public Works and Government Services Canada

## Alternative Forms of Delivery: Contracting for Property Management Services

## Main Points

**18.1** The contracting process used by Public Works and Government Services Canada (PWGSC) to contract out the operation and maintenance of two thirds of its buildings was well managed and consistent with the objectives of the Department. We found that the bidding process was open, transparent and fair. The contracts were well designed and the handover to the contractor went smoothly. A significant feature of the contracting process was the use of "fairness monitors" to provide independent assurance to the Department's senior management that the process was conducted fairly and in accordance with the rules.

**18.2** Because some of the key monitoring and control features were not in place at the time of the handover of operations, ongoing management of the contracts has been problematic. Important items that had to be ready at contract signing — such as budgets for the first year, assessments of building condition and performance indicators of tenant satisfaction — were not completed until well into the first year. As a result, the Department will not be able to carry out a complete assessment of the contractor's performance in the first year and thereby get full assurance that it is receiving the quality and quantity of service to which it is entitled.

**Background and other observations**

**18.3** Public Works and Government Services Canada, through its Real Property Services Branch (RPS), is the primary landlord of a significant proportion of the government's real property holdings. Its inventory amounts to about 6 million square metres of space — from office buildings, laboratories and warehouses to the Parliament buildings and other "national treasures". It also administers 3,000 leases representing annual rent of $550 million. This makes the Branch one of the largest property managers in the country.

**18.4** In 1996, the Department embarked on an initiative called "Alternative Forms of Delivery" (AFD). A key element of the initiative was to contract out the management and operations of a portfolio of buildings, including services ranging from cleaning and the operation of building systems to maintenance, landscaping and repair projects. This initiative was a response to the government's 1994 Program Review and served as a strategy for restructuring the Branch around its core business activities. The Branch also wanted to support the Canadian property management industry and reduce costs through this initiative.

**18.5** The Department contracted out to the private sector the operations and maintenance of approximately 300 buildings with about 2.3 million square metres of office space. It expects to achieve about $20 million annually in cost savings by turning over the management of those buildings to the private sector.

**18.6** The buildings were regrouped by region and offered to the private sector in 13 separate contracts, with a total value of around $170 million. The same contractor won each of the 13 contracts. It offered jobs to almost all affected employees at full salary for a minimum of three years. About 465 employees accepted the transfer to the contractor.

**18.7** It is too early to assess whether savings the Department expects from this initiative will be achieved. We cannot measure at this time whether the Department will receive services at least equal to those it provided itself, and receive them at lower cost. However, mechanisms were incorporated in the contracts that are conducive to achieving savings. We will follow up on these issues in future audit work.

**18.8** We encourage Public Works and Government Services Canada to continue to use "fairness monitors" for large and complex contracts. In a project of this scope and complexity, we did not expect to find that all contractual requirements would be fulfilled by the handover date. We did expect that the Department would have established an action plan to deal with the uncompleted deliverables. We have recommended that it develop an action plan with the contractor to deal with outstanding contractual issues, including target completion dates and respective responsibilities for resolving them.

**The Department has agreed with our recommendation.**

## Introduction

**18.9** One of the objectives of the government's 1994 Program Review was to "get government right". An important element of this was identifying government activities that might be handled better by the private sector. For its part, the Real Property Services Branch of Public Works and Government Services Canada (PWGSC) began a process of self-examination that ultimately led to its "Alternative Forms of Delivery" (AFD) initiative, part of which was contracting out the management of many of its office buildings.

**18.10** In its 1995 Business Plan, the Branch identified its principal role as that of "real property advisor" to the government. Its long-term strategy would be to focus on developing its capabilities to fulfil that role, and "to work more closely with the private sector in the delivery of certain operational and transactional services."

**18.11 One of the largest property managers in the country.** The Real Property Services Branch of Public Works and Government Services Canada is the primary landlord for a significant proportion of the government's real property holdings, the buildings in the Parliamentary Precinct and most of the many office buildings used by government departments and agencies across the country. As the landlord, the Department traditionally has provided a wide variety of real property services to its tenant departments, ranging from cleaning and fit-up to advice on how to make the best use of real property resources. It is also responsible for the ongoing care and maintenance of the assets. In all, the Department provides office space for some 160,000 public servants in about 2,500 facilities across Canada. Its inventory amounts to about 6 million square metres of Crown-owned and leased space — from office buildings, laboratories and warehouses to the Parliament buildings and other "national treasures". It also administers 3,000 leases representing annual rent of $550 million. This makes the Department one of the largest property managers in the country.

**18.12** Having defined its role during Program Review, the Branch undertook a study to identify its core services and activities — those it needed to retain to realize its vision of becoming the government's strategic real property advisor and to fulfil its mandated role. At the same time, it would identify the services and activities that fulfilled no special public purpose and therefore could be carried out by the private sector.

**18.13** This "Core/Non-core" study generally classified as core activities those that dealt with issues of mandate, program management and strategy, quality assurance and risk management. Typically, the operational aspects of service delivery were identified as non-core and became candidates for contracting out.

**18.14** As a result of its study, the Department concluded that the property management services it was then providing to the government were non-core activities and that the private sector might be able to deliver them more cost-effectively. The types of service to be contracted out included cleaning, groundskeeping, mechanical maintenance and operation of building systems, and preparation of annual building management plans. The study further concluded that there was no strategic or public purpose reason why the government should continue to deliver these types of services itself.

**18.15** From these conclusions flowed the decision to contract out property management services and to negotiate the possibility of transferring to the successful bidders the PWGSC employees then delivering those services.

**The Department concluded that the private sector might be able to deliver property management services more cost-effectively.**

**The decision to contract out**

**18.16** In recent years, several large companies in Canada have contracted out their property management services, as have some Crown corporations such as Canada Post Corporation and the Canadian Broadcasting Corporation. The real property industry is evolving and developing the capacity to meet the needs of such large clients.

The Department wanted to focus more on its advisory role and to save 10 percent on its property management costs.

**18.17** The main objectives for contracting out property management services usually are to save money, concentrate on core activities and get access to first-class property management capabilities. However, contracting out an operation does not mean abandoning responsibility for it. Although the government has contracted for property management services, it retains responsibility for their funding and is accountable for them to building tenants and to Parliament. It is still the government that decides on the quantity and quality of a service to be provided, and it remains accountable for both aspects of that service.

**18.18** In its November 1995 Business Plan, the Department stressed its intent to change the way its services are delivered. It wanted to focus more on its advisory role and to provide a full range of real property services more affordably and efficiently. In particular, it set a target for the AFD initiative to save 10 percent on its property management costs while providing at least the same level of service. The Branch established a number of principles to guide management in implementing the AFD, to ensure that:

- employees would be protected to the greatest extent possible;
- transferred assets would be maintained in good condition; and
- it would remain the landlord of all the assets and continue to exercise all responsibilities inherent in that role.

**18.19** Once the Branch had decided to proceed with AFD in the fall of 1996, the timing of the process was driven by the need to complete the transfer of affected employees to the successful bidder before the terms of the government-wide programs for work force adjustment expired in March 1998. Exhibit 18.1 shows key milestones in the contracting-out process. For a transaction of this size and complexity, this meant that a great deal had to be done in a

Exhibit 18.1

**Milestones in Contracting Out Property Management**

| Date | Event |
|---|---|
| 31 Oct. 1996 | Treasury Board informed of decision to contract out |
| 21 Feb. 1997 | Request for Qualification issued |
| 8 Jul. 1997 | Request for Proposal issued |
| 17 Sept. 1997 | Proposals due |
| 17 Sept. 1997 to 10 Dec. 1997 | Evaluation of proposals |
| 11 Dec. 1997 | Treasury Board approval of contracts |
| 12 Dec. 1997 | Letters of intent to enter into contracts |
| 13 Dec. 1997 to 17 Mar. 1998 | Negotiation of final wording of contracts |
| 18 Mar. 1998 | Contracts signed |
| 19 Mar. 1998 | Job offers made and lay-off notices given |
| 19 May 1998 | Job offer acceptances due |
| 28 May 1998 | Affected employees join the contractor |
| 28 May 1998 | Handover of operations from PWGSC to contractor |

**Source:** PWGSC

relatively short time frame. Further, ensuring a fair and competitive process meant that the time allowed for certain of these activities, such as preparation and evaluation of tenders, could not be compressed.

### Buildings included in the AFD initiative

**18.20** Originally, the Department's intent was to include in the initiative all buildings owned by the Crown that are under PWGSC's custodianship, except those with unique and special requirements such as the Parliamentary Precinct, and buildings with security requirements. In some cases, however, client departments requested that the Department continue to deliver property management services directly, because the AFD initiative had no track record. The Department chose to accede to those requests and excluded the buildings from the first round of contracts. It told us that once it gains more experience with the AFD initiative, it will consider expanding it to include more buildings. Premises leased by the Department were also excluded from the initiative, since property services for them are already delivered by their private sector landlords.

**18.21** In structuring the contracting process, available options ranged from a separate contract for each building to one very large national contract for all of them. Ultimately the Department settled on a middle course. It broke the eligible properties into contracting packages, or building portfolios, each of which became the subject of a separate contract.

**18.22** Of the approximately 487 buildings with about 3.5 million square metres of space that are owned by the Crown and are under PWGSC's custodianship, more than 100 were excluded from the AFD initiative. The remaining 377 buildings were grouped by geographical area into 18 large portfolios. Management considered that large portfolios were necessary both to realize economies of scale and to reduce as much as possible the costs of the departmental infrastructure and the associated corporate and administrative services.

**18.23** Since PWGSC had been involved with the provinces in "efficiency of the federation" initiatives since the early 1990s, it first invited provincial and territorial governments to advise it if they were interested in providing the services. They showed interest in 5 of the 18 portfolios. The remaining 13 portfolios were offered to the private sector in an open, competitive bidding process. In all, they consisted of 300 buildings with about 2.3 million square meters of office space (see Exhibit 18.2). The same contractor was the successful bidder on each of the 13 contracts.

### Scope of contracts

**18.24** The scope of AFD contracts for each portfolio included property management, project delivery, retail letting and tenant project services. The activities in each service category are shown in Exhibit 18.3.

**18.25** The Department's 1998–99 gross expenditures related to federal accommodations amounted to about $1.33 billion, of which around $743 million represented rentals and grants to municipalities in lieu of taxes, and $230 million represented major capital expenditures (over $200,000). Of the remaining $357 million budgeted for the management and maintenance of Crown-owned buildings, about $211 million was budgeted for the 377 buildings included in the AFD initiative.

**Our audit covered the 13 contracts the Department signed with a private sector contractor.**

### Focus of the audit

**18.26** Our audit covered the 13 contracts the Department signed with a private sector contractor. We did not look at the five portfolios offered to provincial and territorial governments because not all of the arrangements had been finalized at the time of our audit.

**18.27** Our examination of the contracting process sought to determine whether the procedures that were followed were adequate to protect the interests of the government and the taxpayers and, in particular, whether:

- the procurement process was conducted in a manner consistent with the objectives established for the AFD, and with the government's rules and guidelines on procurement;
- the resulting contract was, in its significant aspects, consistent with the successful proposal;
- the transition to the contract was managed efficiently and in accordance with the contract;
- the Department has established the procedures necessary to manage its relationship with the contractor; and
- the Department has adequately ensured environmental protection and sustainable development in the AFD initiative.

**18.28** We did not examine the merits of the original decision to contract out property management services. Additionally, the timing of our audit work was such that an examination of the financial and operational results of the AFD for the initial operational period ending 31 March 1999 was not practical. The field work for this audit was completed 1 April 1999.

Exhibit 18.2

**Building Portfolios Offered Under the AFD Initiative**

| Portfolios offered to provincial and territorial governments | Number of Buildings | Floor Area (square metres) |
|---|---|---|
| British Columbia (except Vancouver) | 30 | 206,802 |
| Northwest Territories * | 20 | 13,911 |
| Prince Edward Island * | 7 | 31,046 |
| Saskatchewan | 13 | 30,084 |
| Yukon Territory * | 7 | 15,902 |
| Sub-total | 77 | 297,745 |
| **Portfolios offered to the private sector** | | |
| Alberta | 10 | 75,237 |
| Manitoba | 12 | 121,188 |
| Ontario (except Toronto) | 58 | 234,191 |
| National Capital Area — #1 | 13 | 345,437 |
| National Capital Area — #2 | 4 | 469,950 |
| National Capital Area — #3 | 23 | 253,425 |
| New Brunswick | 32 | 59,316 |
| Newfoundland | 42 | 65,913 |
| Nova Scotia | 28 | 69,471 |
| Quebec — East | 31 | 118,433 |
| Quebec — West | 30 | 257,680 |
| Toronto | 8 | 170,165 |
| Vancouver | 9 | 58,731 |
| Sub-total | 300 | 2,299,137 |
| **Total** | **377** | **2,596,882** |

**Source:** PWGSC

* An agreement has not yet been reached. The Department continues to maintain these portfolios.

**18.29** We did not audit the prime contractor, Brookfield Lepage Johnson Controls Facility Management Services(BLJC), and nothing in this chapter should be construed as a comment about it. We were concerned solely with the actions of the government.

**18.30** Further details on our audit objectives, criteria and approach are presented in **About the Audit** at the end of the chapter.

## Observations and Recommendations

### The Contracting Process

**Solicitation, evaluation and award phases were well managed**

**18.31** Key stakeholders and, in particular, real property companies and industry associations were consulted before and during the process to solicit their views and to keep them up-to-date on the progress of the AFD initiative. The contracting for the AFD initiative was set up using a two-step tendering process for each portfolio. The first step, in February 1997, involved posting the Request for Qualifications (RFQ) document on the Department's electronic Open Bidding System. The RFQ was intended to provide the industry with notice of the Department's intent, provide potential suppliers with a statement of the qualifications they would need to bid for the contract(s), and permit the Department to gauge the extent of potential competition. Issuing the RFQ also meant that potential suppliers who might not possess all of the desired qualifications had the opportunity to strengthen their organization, or to form partnerships with others and create a capability to fully meet the government's requirements. The RFQ elicited responses from 28 potential suppliers.

**18.32** The second step was to issue the Request for Proposals (RFP) in July 1997. It drew at least three bids on each of the 13 portfolios (in all, 62 proposals for the 13 portfolios from 14 different service

Exhibit 18.3

**Scope of AFD Contracts for Each Portfolio**

| Property Management Services | Project Delivery Services | Retail Letting Services (where applicable) | Tenant Delivery Projects |
|---|---|---|---|
| • Preparation of building and portfolio plans<br>• Day-to-day operations<br>• Energy management<br>• Cleaning<br>• Maintenance<br>• Landscaping<br>• Environmental protection<br>• Health and safety requirements<br>• Emergency preparedness<br>• Property management administration | • Management and delivery of construction projects (repairs, upgrade, fit-up and space optimization projects up to a value of $200,000) | • Management and administration of third-party leases | • All projects requested by tenants (funded directly by tenants and not included in the price of the contracts; estimated annual amount: $10.8 million nationally) |

Source: PWGSC

providers) with the exception of the Alberta portfolio, for which two bids were received.

**18.33** The Department established a multi-disciplinary team of experts to evaluate the bids. They used a point-rating system that took into account key factors such as the proposed approach to service delivery (with 35 percent of possible points), quality and quantity of job offers to existing departmental employees (35 percent), qualifications (20 percent), and price and fees quoted (10 percent). The relative weight to be given to each area was known to the bidders and was intended to reflect the Department's priorities and objectives in entering into the contracts.

A significant feature of the contracting process was the Department's use of "fairness monitors".

**18.34** To discourage unbalanced bids or attempts to "buy" the contract, the Department structured its evaluation methodology to emphasize technical superiority over price. Bids were required to meet a pricing target established by the Department. This target was based on the amount that the Department estimated it would have spent to provide these services itself, less 10 percent. However, bids would gain few points for being lower than the target amount. Consistent with the guiding principles established for the AFD, the weighting of factors strongly encouraged bidders to present attractive offers to the Department's employees.

**18.35** On 12 December 1997, following the completion of the evaluation process, the Minister responsible for PWGSC announced that BLJC had been selected as the sole contractor for all the contracts, since it had submitted a superior bid for each of the 13 portfolios.

### Fairness monitoring provided assurance

**18.36** A significant feature of the contracting process was the Department's use of "fairness monitors". The first independent monitor provided advice and guidance to ensure the integrity of the overall AFD process, and the second monitor carried out "fairness" reviews at the solicitation, evaluation and award phases of the contract. The Department thereby received a high level of assurance that this large and potentially controversial project was conducted fairly.

**18.37** As the scope of the fairness review work overlapped substantially with our audit scope, we sought to determine whether and to what extent we could rely on that work and reduce our own testing. Based on interviews with the two monitors and a review of their work and relevant documentation, we found that we could rely on their opinions of the fairness of the process (see Exhibit 18.4 for their opinions and a brief description of the scope of their work).

**18.38** In our view, the independent assurance provided by the "fairness monitoring" process became particularly important when the contracts for all 13 of the portfolios up for bid were awarded to a single bidder. Such a process involves costs and may not be appropriate for all contracts. For very large and possibly controversial contracts, however, it may be worth the cost to be able to provide all parties — management, ministers, Parliament, industry and taxpayers — with timely and independent assurance that the contracting process used was fair and procedurally correct.

### Specifics of the contracts

**18.39** All 13 contracts contain the same basic standard terms and conditions. The contracts are for a term of two years and 10 months (28 May 1998 to 31 March 2001). The Crown has the option of extending the term by up to four years. Therefore, the contracts could extend up to six years and 10 months before being tendered again.

**18.40** The pricing method used is "cost plus fee". This means that PWGSC reimburses the contractor for only those eligible costs it incurs in managing the buildings, plus the related management fee. Eligible costs include, among other

things, disbursements the contractor makes to deliver services, and labour costs for positions up to the level of property manager or equivalent. The management fee is a predetermined percentage of the costs incurred. This percentage, between 5 percent and 6.8 percent, varies in each portfolio and according to the type of cost involved.

**18.41** Overall, the Crown's annual financial obligation under each of the contracts is subject to a predetermined ceiling, established by the contractor's initial bid. This means that the contractor must deliver all services described in the statement of work — including property management, project delivery and retail letting services — for an amount equal to or less than the Crown's annual financial obligation. The sum of that annual financial obligation for the term of the contract (two years and 10 months) constitutes the estimated contract price. Exhibit 18.5 shows the bids submitted by the successful contractor.

**18.42** The amount of the Crown's total annual financial obligation includes an estimated amount between $8 million and

**Exhibit 18.4**

**Fairness Monitoring – Opinions on the Fairness of the Contracting Process**

| | Monitor 1 | Monitor 2 |
|---|---|---|
| **Scope of inquiry** | • The development of the Request for Proposal and the Statement of Work and Model contract<br>• The development of the evaluation process and the criteria to be used<br>• The bid evaluation and selection including the identification of issues and the resolution thereof<br>• The monitoring of conference calls during the contract negotiations | • Reviewed the Request for Proposal and the Request for Qualification documents.<br>• Reviewed the evaluation plans and scoring methodologies/plans developed for the evaluation of the RFP and RFQ.<br>• Reviewed the work and approach used by the team members responsible for conducting the evaluation of the RFP and RFQ.<br>• Attended or reviewed tape recordings of all debriefing sessions provided to bidders who submitted information at the RFQ stage of the bid evaluation process.<br>• Participated in the resolution of all significant fairness issues raised during the course of the evaluation of the RFQ and RFP.<br>• Reviewed the evaluation scoring of the successful bidder.<br>• Attended the debriefings of unsuccessful bidders.<br>• Reviewed the contract between PWGSC and the successful bidder. |
| **Conclusion** | "In our opinion, the overall AFD process was conducted with integrity, including equity, openness and fairness of the contracting process enabling consistent reasonable and fair treatment of prospective service providers." | "Nothing has come to our attention that leads us to believe that the bid evaluation/selection activities were not conducted with integrity, openness and fairness. No issues have arisen which would lead us to believe that all prospective services providers were not treated in a consistent, reasonable and fair manner and that the bid evaluation/selection activities undertaken were not in accordance with those described in the RFQ and RFP." |

**Source:** The fairness monitors' opinion letters.

An innovative feature of the contract is the effort to refocus contract management on performance rather than process.

$9 million in management fees for the contractor. It is important to note that these fees do not represent the contractor's profit, but rather are its gross revenue for these contracts. From these fees the contractor in turn must cover its operating costs and the costs of administering the contracts.

### Innovative fee structure and performance monitoring

**18.43** An innovative feature of the contract is the effort to refocus contract management on performance rather than process. Accordingly, the contract specifies that during the contract year, the contractor will be reimbursed for eligible costs incurred and for 85 percent of the related management fee. The remaining 15 percent is not to be paid until year-end. This year-end payment (a performance fee) depends on the extent to which the contractor has performed at levels agreed upon at the beginning of the year. The contractor can earn an additional 5 percent of the total management fee (a service excellence fee) in each of three service categories if its performance excels in all of the measured performance areas for that service category.

**18.44** To implement this provision, the Department has developed and written into the contract a comprehensive framework of 32 performance indicators against which to monitor and measure BLJC's performance. They are grouped into three categories: asset integrity, financial, and satisfaction (see Exhibit 18.6).

**18.45** The use of key performance indicators places emphasis on performance rather than process, by linking fees earned to performance. However, this requires that both parties define and agree in advance on the performance expected.

## Human Resource Issues

**18.46** Human resource issues lie at the heart of the AFD initiative, for two reasons. First, the Department had established as a guiding principle for the initiative the greatest possible protection of the position of its affected employees. Second, doing so would, in the

Exhibit 18.5

Bids of the Successful Contractor

| Building Portfolios | Bids for the Term of 2 Years 10 Months (Estimated Contract Price) | Bids Expressed on a 12-Month Basis (Crown's Maximum Annual Financial Obligation) |
|---|---|---|
| 1. Vancouver | 15,925,132 | 5,590,389 |
| 2. Alberta | 12,619,008 | 4,428,193 |
| 3. Manitoba | 19,340,741 | 6,791,080 |
| 4. Ontario (except Toronto) | 46,832,766 | 16,445,706 |
| 5. Toronto | 38,424,816 | 13,481,227 |
| 6. National Capital Region — #1 | 69,198,842 | 24,222,089 |
| 7. National Capital Region — #2 | 115,113,950 | 40,380,167 |
| 8. National Capital Region — #3 | 59,384,652 | 20,826,462 |
| 9. Quebec — West | 49,119,319 | 17,234,117 |
| 10. New Brunswick | 13,035,578 | 4,572,604 |
| 11. Nova Scotia | 13,136,591 | 4,608,725 |
| 12. Newfoundland | 11,425,536 | 4,006,843 |
| 13. Quebec — East | 22,870,061 | 8,019,448 |
| Total | 486,426,992 | 170,607,050 |

**Source:** PWGSC

Department's view, require that the transaction take place under the provisions of the government's work force adjustment program set up to help employees deal with the changes that Program Review had generated. Key provisions of the program were to expire on 31 March 1998 and so by that date the Department would have to resolve all of the key issues surrounding the employment status of those affected. This established hard deadlines for certain events that became critical drivers of many decisions the Department made in the transition phase of the contract, discussed later in this chapter.

**18.47** In the RFP, the Department included minimum requirements that bidders had to meet in the job offers they

Exhibit 18.6

**Performance Indicator Framework to Monitor and Measure Contractor's Performance**

| Category | Property Management Services | Maximum Possible Score | Project Delivery Services | Maximum Possible Score | Rental Letting Services | Maximum Possible Score |
|---|---|---|---|---|---|---|
| **Asset integrity** | Critical events | 150 | Scope | 250 | | |
| | Energy consumption | 100 | Quality | 750 | | |
| | Integrity assessment | 400** | | | | N/A |
| | Quality control inspections | 350 | | | | |
| Subtotal | | 1000 | | 1000 | | |
| **Financial** | PMS baseline | 600 | Portfolio project baseline | 250 | Rental rates | 250 |
| | Forecasting of year end actuals | 400 | Estimates | 250 | Revenues | 250 |
| | | | Value for Money | 250 | Account >15 days | 250 |
| | | | Forecasting of year end | 250 | Occupancy levels | 250 |
| Subtotal | | 1000 | | 1000 | | 1000 |
| **Satisfaction** | Professionalism | 100 | Project plan | 300 | Letting Approach | 500 |
| | Progress SDS | 100 | Project delivery | 300 | Letting operations | 500 |
| | Effective sub-contracting | 100 | Delivery against plan | 400 | | |
| | Information and reporting | 100 | | | | |
| | Service calls (Maintenance) | 200* | | | | |
| | Security services | 200 | | | | |
| | Managing commercial letting | 100 | | | | |
| | Commercial letting revenue | 100 | | | | |
| | Service calls — Operations | 400* | | | | |
| | Responsiveness | 400* | | | | |
| | Tenant surveys | 200* | | | | |
| Subtotal | | 2000 | | 1000 | | 1000 |
| **TOTAL** | | 4000 | | 3000 | | 2000 |

* Performance indicators were not assessed during 1998–99.

** Baseline assessment done during the year, year-end assessment not done in 1998–99.

**Source:** PWGSC

The Department had established as a guiding principle for the initiative the greatest possible protection of its affected employees.

submitted with their bid proposals. The Department gave the human resources component of the proposals a weighting of 35 percent when it evaluated the submitted bids. It found that BLJC's proposals exceeded its minimum job offer requirements.

**18.48** In its proposal, BLJC committed itself to offering jobs to almost all available operational employees, at their current pay and with a minimum three-year employment guarantee or for as long as BLJC keeps the contracts. In early 1997, about 600 departmental employees were involved in managing and operating the buildings in the 13 portfolios offered to the private sector. In the ensuing months, about 100 of those employees found a job either elsewhere in the government or outside the government. As a result, only 500 employees were available in March 1998 when BLJC made its job offers; 465 accepted and joined BLJC on 28 May 1998.

**18.49** Employees who joined BLJC received cash payments. We found that the Department's compensation payments to these employees complied with the Treasury Board's work force adjustment programs. We noted that the method it used to determine the final number of persons available for job offers was appropriate, and that BLJC respected the job offer commitments it had made in its proposals.

## Transition Period

The necessary steps were taken to ensure a proper transition from management by the Department to management by the contractor upon the handover.

### Tasks still remain to be completed

**18.50** Between the contract award in late 1997 and the date when the services were handed over to the contractor (28 May 1998) there was a transition period in which a significant number of tasks had to be completed. As already noted, the tasks that involved the transition of employees were accomplished on time. Further, the necessary steps were taken to ensure a proper transition from management by PWGSC to management by the contractor upon the handover. By all reports, the handover went smoothly.

**18.51** In the transition period, however, the contractor did not deal with several matters related to operational budgets, building condition, and the establishment of baseline measures for the key performance indicators. The contractor was to have addressed these issues before the contract was signed. They were rescheduled to the handover date, 28 May 1998, but at that date most had still not been completed. The Department advised us that there had been agreement between the parties to defer these issues until other priorities were dealt with.

**18.52** The building management plans containing budget baselines and projects are a key control for the Department. Once reviewed and approved by the Department, these plans constitute the basis on which the contractor is to manage the buildings for the planning year in question. They define the ceiling on eligible expenditures and the extent and scope of approved minor projects for the structures. They were to have been prepared by the contractor and reviewed and approved before the handover. They were not completed and approved until well into the first year of the contract.

**18.53** Before the handover, the contractor was also to have formally inspected all buildings. The inspection results were to have formed a key baseline for agreement between the contractor and the Department on the initial condition of the buildings, as well as the baseline for measuring asset integrity performance in the first year of the contract. The contractor did not do this work, and in summer and fall of 1998 the Department carried out the inspections at its own expense. In these circumstances, it was very important that the Department receive the contractor's formal concurrence in the assessments of building condition. In some of the contracts there is

written evidence of concurrence, but in others the Department does not have such formal assurance from the contractor.

**18.54** Establishing key performance indicators required that both parties define performance. This proved to be much more complex than anticipated, and most baselines for assessing performance were finalized only well into the first year. One consequence is that for much of the year, PWGSC had no indicators against which to assess the contractor's performance. Some of the performance indicators will not be used at all this year, since related baselines for measuring performance have not yet been established (see Exhibit 18.6). More than half (on a weighted basis) of the indicators of customer satisfaction with property management services will not be used or usable this year. As noted above, the core measure of asset integrity is also affected. As with the building condition reports, evidence of the contractor's agreement on the basis for measuring performance is inconsistent among the contracts. Some regions had full, written documentation while others were able to assure us only of oral agreements.

**18.55** We note that the contracts provide for paying the contractor "performance fees" and "service excellence fees". For the purpose of determining its eligibility for these fees, the contractor's performance is to be measured according to the key performance indicators. Given that some indicators have yet to be established, the contractor could be paid performance fees and possibly excellence fees this year for results that may have been less than were required. Further, this could lead to problems and disputes over payments.

**18.56** The delays in completing all of the transition tasks arose partly because priority was given to meeting the human resources deadline; the contractor had to make the job offers to affected employees on or before 31 March 1998. In a project of this scope and complexity and given the fixed time constraints, we did not expect that everything could have been completed in time. We did expect, however, that the Department would have established a process to ensure the timely and controlled completion of the tasks that remained to be done. The two parties continue to work on these items, but the Department has not formally notified the contractor of the work that is incomplete, nor has it developed and agreed with the contractor on a plan containing target dates and respective accountabilities for resolving these issues.

**18.57 The Department should develop a schedule of outstanding contractual items, and develop an action plan with the contractor showing when each item will be completed and which party will be responsible for completing it.**

***Department's response:*** *Public Works and Government Services Canada accepts the recommendation. The Department has been actively working with its service provider to put in place the outstanding deliverables and will develop an action plan with target dates.*

We did not expect that everything could have been completed in time. We did expect, however, that the Department would have established a process to ensure the timely and controlled completion of the tasks that remained to be done.

## Expected Savings

**18.58** One of the Department's objectives for the Alternative Forms of Delivery (AFD) initiative was to achieve a 10 percent annual saving on its property management costs. The Department told us that this target was based on the experience of other organizations and on discussions with industry representatives. It believes that the contractor has sufficient opportunity to achieve the savings of 10 percent by minimizing management costs, particularly in the areas of human resources, contracting and finance — in other words, by reducing administrative costs rather than cutting operating and maintenance costs to a point that might affect client satisfaction and compromise the operation and maintenance of buildings.

We could not determine whether or not the contracts will yield the expected 10 percent savings. We did find that the contracts contain control mechanisms to facilitate savings.

**Determining the cost base**

**18.59** The Department used its projected costs for 1998–99 as a baseline for measuring savings. From this baseline, it deducted its estimated costs of managing the contracts and the estimated 10 percent savings (in total, about $20 million) and arrived at the target cost for each portfolio. The bidders were required to offer the specified services for an amount no greater than the target cost.

**18.60** The challenge was then to make sure that the baselines would reflect the costs actually incurred by the Department. The baselines were calculated in 1997, using estimates based on actual data for 1995–96 and year-end forecasts for 1996–97. Using the actual costs for 1997–98, we made our own calculation of the costs of maintaining the buildings included in the AFD. We could not reconcile our baselines and those of the Department with sufficient precision to conclude whether the baselines were accurate. This is due in part to material errors made by the Department that overstated the baselines used in the Request for Proposals issued for some major portfolios. However, the Department discovered its errors by applying its own control procedures and subsequently negotiated a number of amendments to the contracts. Although this lowered the cost baselines in those cases, they were still higher than they should have been. As a result, the government will spend more money on those portfolios than it might have spent had the original cost baselines been calculated accurately. The Department has informed us that the additional funds have been used to do maintenance and repair work that would otherwise have been deferred to future years.

**18.61** A review of actual results for the first year of operation showed that the cost baselines established for property management services were exceeded in some portfolios. The total ceilings on those portfolios were not exceeded, however, because less money was spent on the project delivery services. Nonetheless, the Department needs to determine why the baselines were exceeded if it is to ensure that cost reductions are not achieved at the expense of repair and/or upgrade projects; this could have an impact on asset integrity in the longer term.

**18.62** The inventory of buildings is changing constantly, and amendments are needed to reflect those changes. The contracts did not contain a structured protocol to determine which costs are to be deleted (or added) in the event that a building is removed from (or added to) the portfolio. Amendments are negotiated case by case by the respective contracting authorities.

**Obtaining expected quality and quantity of services**

**18.63** The concept of a saving implies getting the same or better service at lower cost. To ensure that it would get the quality and quantity of services specified in the contracts, the Branch designed a comprehensive performance evaluation system. In the first year of the contracts, however, the Department has not been able to use many of the performance indicators, including some dealing with client satisfaction and asset integrity (see paragraph 18.54). Other than anecdotal information, the Department does not have enough data to measure customer satisfaction. This will affect the quality and completeness of the contractor's performance evaluation by the Department. The Department is currently finalizing those performance indicators and believes that the performance evaluation system will be fully operational for the second year of the contract.

**18.64** Given the evidence we had, however, we could not determine whether or not the contracts will yield the expected 10 percent savings while maintaining at least the same level of service. Nor could

we determine at this time whether assets are likely to be maintained in a condition at least as good as when the Department was providing the services.

**18.65** We did find that the contracts contain control mechanisms to facilitate savings. The extent to which departmental personnel monitor the contractor's performance will determine whether the initiative is actually yielding savings. The Department will need to scrutinize annual building management plans and operational baselines and to monitor actual performance against them. It will also need to assess the contractor's cost effectiveness in delivering tenant project services. Only by doing so will the Department be able to ensure that it is continuously getting the value it expects for the money it spends. The Department will need to arrive at an adequate balance between ensuring that the contractor is fulfilling the terms of the contracts and ensuring that its own cost of managing the contracts does not offset any savings.

**18.66** The contracts incorporate features that should foster co-operation and promote innovative business processes — both of which should lead to lower costs. At any time during the term of the contracts, the contractor may submit proposals under the Management Value Incentive Program. This is a program that provides incentives for the contractor to develop proposals that will produce savings. If PWGSC accepts a proposal, it becomes a project and the contractor and the Crown share any savings that result. If properly used and controlled, this incentive program could lead to lower costs in the future.

### Environmental Issues in the Contract

**18.67** The extent to which the management of the government's real property assets reflects the Department's sustainable development strategy (SDS) directly affects the environment. The contracts made appropriate provision for the contractor to support the Department's environmental activities and to take necessary actions to adhere to the SDS. Departmental asset managers will regularly monitor the contractor's performance and will measure it annually. How well BLJC performs on environmental matters directly affects the fees it will receive under the performance plan.

**18.68** All of the buildings initially covered by the AFD initiative were subject to environmental reviews by the Department, and many priorities for action were identified. The contractor's initial portfolio management plans that we reviewed did not show a clear link to these assessments. Furthermore, at the end of our field work, BLJC was finalizing detailed Environment Protection and Conservation Plans for all portfolios. These plans are essential both to support the Department's environmental activities and to adhere to the sustainable development strategy. They are also required under the contract.

## Conclusion

**18.69** Our examination of the contracting process, from the Request for Qualifications and the Request for Proposals to the evaluation of bids and awarding of the contract, led us to conclude that in all material respects it was carried out in accordance with the regulations and rules for government contracting. Further, nothing came to our attention during the course of our audit that would lead us to doubt the conclusions of the fairness monitors that the process was conducted in a fair and transparent manner.

**18.70** We examined the solicitation and evaluation process and the terms of the contracts themselves in relation to the objectives established for the contracting out of property management. The design of the process was, except for errors in

**Nothing came to our attention that would lead us to doubt the conclusions of the fairness monitors that the process was fair and transparent.**

costing, consistent with the objectives and priorities that the Department had established. The contracts as signed on 18 March 1998 reflected, in all significant aspects, the proposals that the winning contractor had submitted on 15 September 1997. The contracts were well designed and the handover to the contractor went smoothly. Employees were treated in accordance with the Treasury Board's work force adjustment programs.

**18.71** The monitoring and performance management procedures needed to track whether the contractor is fulfilling all its obligations were not in place on time. As a result, the Department will not be able to base its 1998–99 assessment of the contractor's performance on a complete set of performance indicators.

**18.72** It is too early to assess whether savings expected by the Department from this initiative will be achieved. Calculations of cost bases were not verified independently to provide management with additional assurance that they were reliable and accurate. However, mechanisms that are conducive to achieving savings were incorporated in the contracts.

### Some lessons learned

**18.73** In large and complex transactions of this kind, the use of "fairness" monitors can provide assurance that the process is transparent and fair. Additional assurance on whether financial objectives are achieved can be obtained by subjecting the calculation of cost bases to independent verification.

**18.74** Contracting out transactions of this magnitude is a complex process that takes a lot of time. Realistic timelines need to be set. However, it cannot be expected that everything will be ready on the start date, and management cannot wait for everything to be in place before going ahead. This needs to be recognized up front and contingency plans prepared early in the process to provide a road map for both parties to deal with any uncompleted tasks.

**18.75** Having a good system for documenting all decisions and keeping records of all agreements between parties is an important element of a good accountability framework.

**18.76** The transfer of service delivery responsibilities to a service provider in the private sector represents a major shift for departmental personnel, who must learn how to oversee the work effectively and efficiently rather than doing the work themselves.

**18.77** In the case of the AFD initiative, the Department conducted extensive consultations before entering into the process, established clear goals for the initiative and developed an accountability framework that defined respective roles and responsibilities. This strengthened the arrangement and increased the initiative's chances of success.

# About the Audit

## Objectives

Our objective was to examine the contracting out of property management services by PWGSC to determine whether procedures that were followed were adequate to protect the interests of the government and the taxpayers. We sought to determine whether the contracting process had been consistent with the objectives of the Alternative Forms of Delivery (AFD) initiative and had been open and transparent. We also wanted to determine that PWGSC had implemented an adequate accountability framework and controls to ensure that the contractor would comply with the terms and conditions of the contract.

## Scope

The scope of this examination included the part of the AFD initiative related to the 13 contracts for the property management services that were signed with the same private sector service provider. It did not include similar agreements signed with other governmental jurisdictions. We have not examined the decision to contract out the delivery of property management services. Our audit consisted of interviews with departmental management and other key stakeholders as well as an examination of all contracts and other relevant documentation.

We have not audited the activities of the bidders and consequently are not commenting on them.

## Approach

We looked at the contracting process used to transfer the management and operation of federal buildings to the private sector contractor, and at the Department's administration of the contract during the first 10 months following the transfer. This was because the first 10 months represented the contract's first complete cycle. Furthermore, we have found in examining other large contracting projects that many of the patterns leading to the eventual success or failure of a contract are established in its early stages. However, the timing of our audit work was such that an examination of the financial and operational results of the ADF for the initial operational period ending 31 March 1999 was not practical. The field work for this audit was completed 1 April 1999.

## Criteria

**Contracting-out process and handover.** We expected that the contracting-out process would be managed in a manner consistent with the Department's objectives for the AFD, and that a competitive bidding process would be used and conducted with integrity and openness. We expected that due diligence would be demonstrated to ensure a smooth handover and minimize risks.

**Financial objectives.** We expected that the initiative would be designed and implemented in a way that could ensure the expected cost savings without affecting the quality of property management services provided and the integrity of the assets.

**Human resource management issues.** We expected a uniform treatment of employees affected by the initiative, in accordance with the Treasury Board's work force adjustment programs.

**Monitoring and performance management.** We expected that the Department would design and implement monitoring and performance management procedures to track whether the contractor is complying with the terms and conditions of the contract and is continuously delivering the specified services at the quality required and for the cost agreed to.

**Environment and Sustainable Development.** We expected that the contracts would require compliance by the contractor with the Department's sustainable development strategy and would take into account the latter's responsibilities under the *Canadian Environmental Assessment Act.*

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 19
Industry Portfolio – Investing in Innovation

**September 1999**

Report of the

# Auditor General of Canada

to the House of Commons

Chapter 19

Industry Portfolio – Investing in Innovation



September 1999

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# Chapter 19

## Industry Portfolio

Investing in Innovation

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 19–5 |
| **Introduction** | 19–7 |
| Focus of the audit | 19–13 |
| **Observations and Recommendations** | 19–13 |
| **Addressing the Innovation Gap** | 19–13 |
| **Industrial Research Assistance Program** | 19–16 |
| Concerns about support for funding decisions | 19–17 |
| Mixed program performance information | 19–18 |
| **Research Partnerships Program** | 19–21 |
| Concerns identified in support for funding decisions | 19–22 |
| Limited performance information | 19–24 |
| **Networks of Centres of Excellence** | 19–25 |
| **Technology Partnerships Canada** | 19–26 |
| Due diligence in assessing business case issues | 19–26 |
| Support for funding decisions | 19–27 |
| Performance monitoring and reporting | 19–27 |
| Reporting to Parliament | 19–28 |
| **Conclusion** | 19–29 |
| **About the Audit** | 19–31 |
| **Exhibits** | |
| 19.1 Models of Innovation | 19–8 |
| 19.2 National Systems of Innovation | 19–9 |
| 19.3 Evidence of Canada's Innovation Gap | 19–11 |
| 19.4 Can Innovation Be Measured? | 19–12 |
| 19.5 Industrial Research Assistance Program — Assessment Criteria | 19–17 |
| 19.6 Grants Under the Research Partnerships Program | 19–22 |

# Industry Portfolio

## Investing in Innovation

## Main Points

**19.1** This audit sought to determine if four grant and contribution programs, through which over $1.3 billion was spent over the last three years, were well designed to help improve Canada's innovation performance. We audited the following programs:

- Industrial Research Assistance Program — National Research Council (NRC)
- Research Partnerships Program — Natural Sciences and Engineering Research Council (NSERC)
- Networks of Centres of Excellence — NSERC
- Technology Partnerships Canada — Industry Canada

**19.2** We expected that these programs would be based on a sound understanding of innovation performance problems in the economy. We found that while there is a wealth of information on various aspects of innovation performance in the economy, it is unclear what this information means when considered together. Moreover, we found that management has not defined what specific innovation performance problems these programs are supposed to address, nor what specific results are expected from them toward promoting innovation.

**19.3** We also sought to determine if these programs were well managed and if management knew whether value for money was being achieved. We could not assure ourselves that many of the contributions under the Industrial Research Assistance Program and many of the grants under the Research Partnerships Program were properly supported. While the technological merit of the projects we examined had been well documented, there was often little explanation of the commercial or pre-commercial benefits expected from the projects, and of the need for government support. There are also important performance issues for which management has little information — in particular, on the commercial or pre-commercial results of funded projects.

**19.4** We concluded that due diligence had been exercised in the grants we audited under the Networks of Centres of Excellence program. We also concluded that the management of Technology Partnerships Canada (TPC) had exercised due diligence in making the contributions that we audited, with specific exceptions. TPC could make improvements in monitoring the progress and results of funded projects, and in reporting to Parliament on how it shares risks and returns with funding recipients.

### Background and other observations

**19.5** The government has made building a more innovative economy one of its policy goals. A number of recent government reports have referred to an "innovation gap", meaning that Canada is not innovative enough compared with its main trading partners. These reports argue that weaker innovation performance lies at the heart of broader performance problems in the economy — particularly lower productivity in relation to the United States.

**19.6** However, our review of the issues suggests that the causes and effects of this gap are not straightforward. While innovation is undoubtedly an important factor in economic growth, assessing the actual innovation performance of the economy is a multifaceted challenge. Although a comprehensive assessment is still difficult to make, there is growing evidence that Canada's performance lags behind that of its major competitors in a number

of specific ways. It is reasonably clear that better innovation performance depends on more than just increased spending on research and development; it involves supporting research and development with the activities needed to embed new technologies in the economy. It seems equally clear that spending on research and development is not the only determinant of the Canadian economy's rate of productivity growth, and may not be the most important one.

**19.7** Promoting innovation in the economy is one of the principal objectives of the Industry Portfolio, which is made up of the organizations for which the Minister of Industry is responsible. The programs we audited focus on supporting research and development and account for the bulk of the grants and contributions made by the Portfolio toward that objective:

- The National Research Council delivers the Industrial Research Assistance Program, which helps small- and medium-sized enterprises develop and exploit technologies ($120 million in 1998–99).
- The Natural Sciences and Engineering Research Council delivers the Research Partnerships Program with the objective of fostering interactions and partnerships between university researchers and other sectors in order to generate new knowledge and develop new expertise, and to transfer this new knowledge and expertise to Canadian-based organizations ($95 million in 1998–99). NSERC also delivers the Networks of Centres of Excellence program to improve Canada's performance in science and technology, and to facilitate transfer of knowledge to those who can use it to advance Canada's social and economic development ($47 million in 1998–99).
- Technology Partnerships Canada is a special operating agency within Industry Canada. It is intended to promote the development and commercialization of innovative technologies that contribute to increasing economic growth and creating jobs and wealth ($250 million in 1998–99).

**The responses of Industry Canada, the National Research Council and the Natural Sciences and Engineering Research Council to our recommendations are included in the chapter. The two councils have agreed to act on all of our recommendations. Industry Canada has agreed to act on all but one of our recommendations. The Department has indicated that no additional measures are required to address our recommendation concerning the justification for the amount of its contributions.**

## Introduction

**19.8** Over the past three fiscal years, Industry Canada, the National Research Council and the Natural Sciences and Engineering Research Council spent over $1.3 billion in grants and contributions through the programs we audited. Promoting innovation in Canadian industry through support for research and development is one of the key roles of each of these programs. This chapter presents:

- a review of the issues of innovation performance in the economy; and
- the results of our audit of these organizations to determine whether management is exercising due diligence and achieving value for money in their investments in innovation projects.

**19.9** In recent years, innovation in the economy has received increasing attention. Before we present the results of our audit, it is worth reviewing what *innovation* means, and how it relates to the issues of national innovation systems, the innovation gap, and other economic performance issues.

**19.10 What does *innovation* mean?** There is probably no single definition of innovation that would meet with universal approval. Nevertheless, the newness of a product or process is clearly a necessary criterion; and innovation is a broader idea than invention alone, for it also includes the development, application and commercialization of the invention. Innovation, then, is not only the initial flash of inspiration or the scientific breakthrough, but the process of rendering the idea practically or commercially viable. The United States General Accounting Office, in a 1996 report to Congress, defined innovation as both invention and commercialization. While this definition limits the idea to mainly business settings, the implicit point seems to be that innovation, wherever and however it occurs, means knowledge put to new use. Beyond this broad meaning, there are a number of views on how to further define or to categorize different models of innovation (see Exhibit 19.1).

**19.11 National and regional innovation systems.** There is more to innovation in the economy than just new products or processes. In recent years, an international policy discussion has centred on the idea of national and regional innovation systems as the key to understanding and improving innovation performance. The Organization for Economic Co-operation and Development (OECD) has played a major role in promoting this view, which stresses that flows of technology and information among people and institutions are key to the innovative process in national and regional economies. Innovation results from a complex set of relationships among participants in the system, which is made up of businesses, universities and government research institutes (see Exhibit 19.2).

**A good understanding of innovation systems is important in making policy decisions.**

**19.12** As a result, the rate of technological change in a country and the international competitiveness of companies do not depend simply on the scale of research and development. They also depend on how available resources are managed and organized, at both the enterprise and the national level; in other words, they depend on the structure that encourages and exploits innovations.

**19.13** For policy-makers, an understanding of national and regional innovation systems can help identify leverage points for enhancing innovative performance. The recommended policies tend to be those that improve the system itself by building networks of institutions and that aim at improving the innovative capacity of firms, particularly their ability to identify and absorb technologies. An important result of this policy discussion is that innovation performance is now regarded as more than simply the result of research and development spending. How

Exhibit 19.1

## Models of Innovation

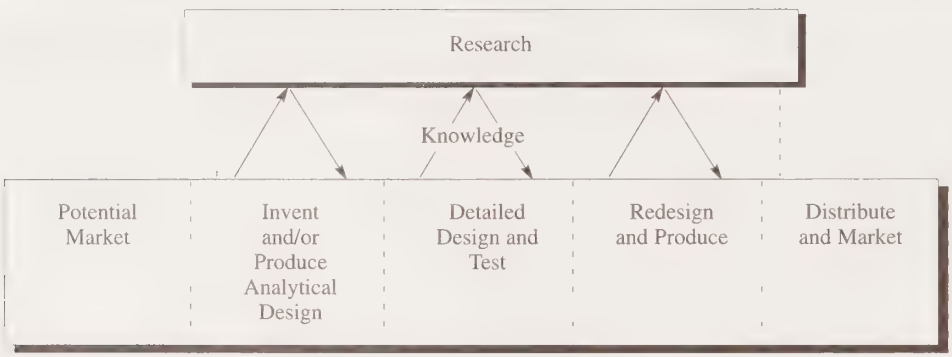
In recent years, the traditional linear model of innovation has been superseded by new analytical frameworks.

### The Linear Model of Innovation



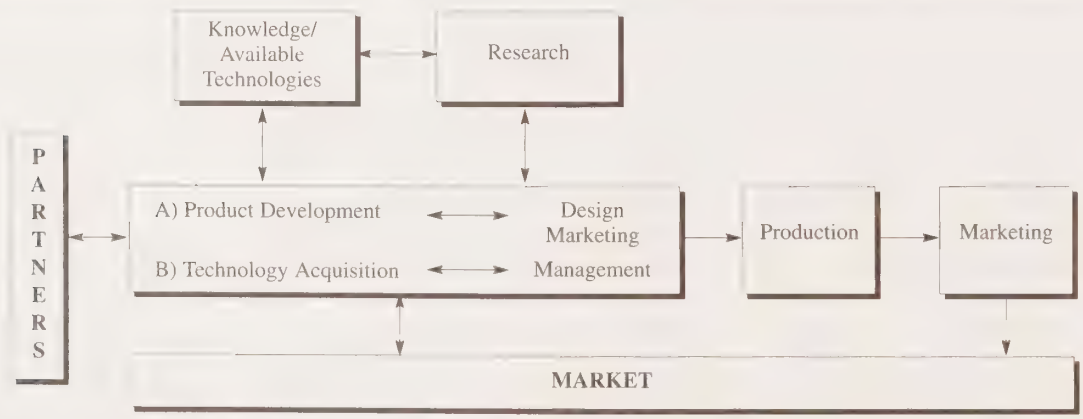

**Source:** Industry Canada, 1996–97 Performance Report

### The Chain-Link Model of Innovation




**Source:** Kline S.J. and N. Rosenberg (1986), "An Overview of Innovation", in R. Landau and N. Rosenberg (eds). *The Positive Sum Strategy. Harnessing Technology for Economic Growth*, National Academic Press, Washington, DC, p. 289.

### An Open System Model of Innovation



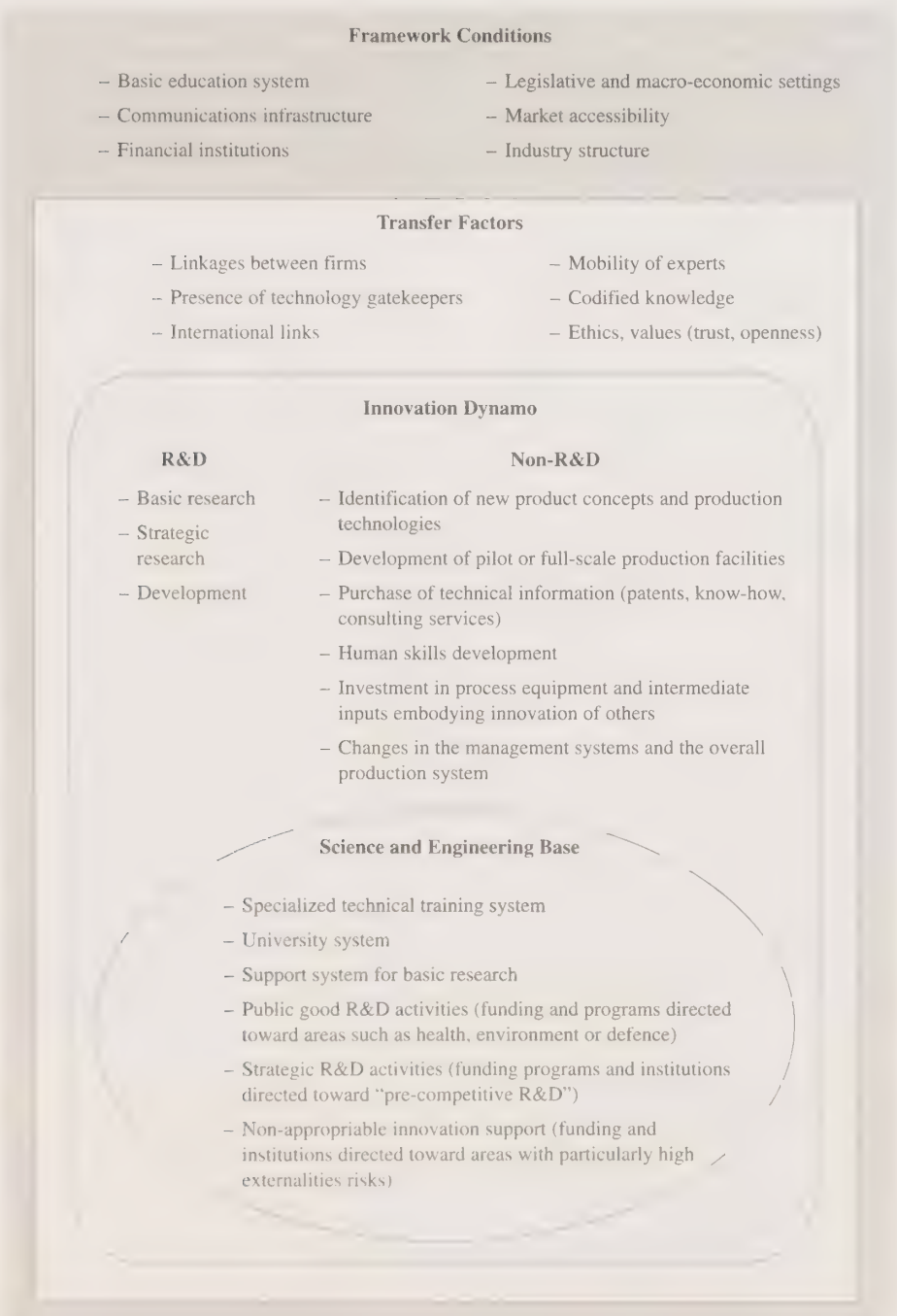

**Source:** Government of Quebec, *Conseil de la science et de la technologie*

well technology is diffused and adopted throughout the economy is as important as, if not more important than, its creation in any one particular "high-tech" sector.

**19.14 Innovation as public policy.** As a matter of public policy, Canada's innovation performance has aroused concern for many reasons. First, many observers argue that Canada's relatively weak economic growth over the last two decades is attributable to a marked decline in the rate of productivity increase. It is widely held that innovation and its

Exhibit 19.2

National Systems of Innovation




**Source:** Conference Board of Canada, *Performance and Potential 1997*

diffusion in the economy plays a role in determining this rate. For example, in summarizing the factors underlying the relatively poor productivity performance in Canada, a 1996 report by the government's policy research initiative concludes: "In simple terms...[it] could be linked to a lack of adjustment and innovation." In a similar vein, the Conference Board of Canada's *Performance and Potential* (1997) maintains that technology diffusion has a decisive impact on the growth of productivity.

**19.15** A second concern about innovation as public policy relates to the changing global economy. Many observers contend that the global economy is undergoing a fundamental restructuring that is ushering in a new economic paradigm known as the knowledge-based economy. According to this view, to survive and prosper in the knowledge-based economy, firms, industries and economies must adopt a strategy of continuous innovation and must engage in innovation competition. The application of new knowledge and ideas and the creation of new products and processes is the essence of the knowledge-based economy.

Studies of relative economic performance have identified an "innovation gap" in Canada.

**19.16** Concern about Canada's capacity for innovation leads to a number of public policy questions. Are we innovating widely enough and fast enough? Are we doing as well as other countries? The last question is frequently framed in terms of an "innovation gap" between Canada and its major economic rivals.

**19.17** **The innovation gap.** The idea of a gap is a popular one in the context of studies of relative economic performance. For example, numerous empirical studies have attempted to account for the productivity gap between Canada and the United States. Recently the notion of an innovation gap, coined by the OECD, has gained acceptance.

**19.18** The term is commonly attributed to the OECD's 1995 *Economic Survey of Canada* that stated: "The view is widely held that Canadian industry suffers from an innovation gap compared with other developed countries." The OECD attributed the gap to insufficient efforts in research and development, as well as to private and public sector attitudes that have contributed to an inflexible and non-innovative industrial structure. Exhibit 19.3 provides information on different aspects of Canada's innovation performance.

**19.19** **Closing the gap.** In the fall of 1994, the government set out its economic program in *Agenda: Jobs and Growth*. One of the four papers released, *Building a More Innovative Economy*, focussed on four policy areas — marketplace climate, trade, infrastructure and technology. The 1996 Budget built upon the priorities of the jobs and growth agenda and, in particular, announced the creation of Technology Partnerships Canada as part of the government's intention to make Canada one of the most innovative countries.

**19.20** Also in 1996, the federal government's strategy *Science and Technology for the New Century* asserted: "it is well documented that, by international standards, Canada's S&T effort has considerable room for improvement, particularly in the development, adoption and commercialization of technology." It goes on to link the innovation gap to poor productivity performance, and the poor productivity performance to depressed real incomes and high government deficits.

**19.21** Industry Canada's 1998–99 Report to Parliament on Plans and Priorities points to the innovation gap and states that failure to capitalize on innovation has been a major reason for Canada's relatively slow productivity growth over the past two decades. The Department's 1997–98 Performance

Report warns that without innovation, real income growth will not meet Canadians' expectations. It goes on to state: "While a sizable overall innovation gap remains, it has been reduced over time. The government has supported innovation through a number of key initiatives, such as the Canada Foundation for Innovation, Technology Partnerships Canada, Networks of Centres of Excellence and the Industrial Research Assistance Program." However, as noted in exhibits 19.1, 19.2 and 19.3, innovation is a multifaceted idea. Most of the existing information is on inputs to innovation, but not on innovation performance directly.

**19.22** Exhibit 19.4 explains some of the challenges involved in measuring innovation. What this information means in aggregate is not at all clear. For example, the 1996 report by the government's policy research initiative argues that our understanding of what is happening in the knowledge-based economy is constrained by the extent and quality of current indicators. The report states that new indicators are needed that capture the innovation process and the distribution of knowledge among key organizations.

**19.23** Toward that end, Statistics Canada is currently developing indicators of science and technology activity and a framework to tie them together into a coherent picture. Several key areas are covered by this initiative, such as

**Most of the existing information is on inputs to innovation rather than on innovation performance directly.**

Exhibit 19.3

**Evidence of Canada's Innovation Gap**

This exhibit stresses the idea that innovation performance has many facets that can be measured with varying degrees of difficulty. Some of the available information relating to a variety of apparent facets of innovation performance has been assembled as follows:

- Canada's research and development expenditures as a proportion of gross domestic product (GDP) are among the lowest of the Organization for Economic Co-operation and Development countries, both in the private sector and overall. Not only is private sector spending on research and development in Canada relatively low but a handful of firms do a disproportionate share.
- Canada lags behind the U.S. by 35 percent in investments in machinery and equipment as a share of real GDP.
- When complementary innovations such as those in organizational structure and in human resource management practices are considered, the picture is somewhat worse. A 1994 study, based on firms adopting computer-based technologies and three kinds of organizational innovations, showed that while the vast majority had adopted the hard technologies, a minority had adopted complementary innovations such as employee participation programs, job design programs and pay-for-performance programs.
- A recent Statistics Canada paper asked, "Do small firms suffer from an innovation gap?" Small firms were only half as likely as larger ones to have introduced product or process innovation. Furthermore, smaller firms were much less likely to introduce process innovations.
- Canadian patenting activity lags behind that of the U.S. by as much as a half.
- Canada leads the U.S. in the proportion of the work force with some post-secondary training, but lags in the proportion of university degrees.

Recent information suggests that some gaps appear to be getting smaller. For example, Canada is now tied with the United States in the proportion of graduates receiving degrees in natural sciences, mathematics, computer science, engineering and architecture. However, the rate of change is slow and it is not clear why these gaps are narrowing.

To sum up, depending on the measures used, various gaps emerge between Canada and one or more trading partners. What the relative significance of each of these gaps is or what they mean in aggregate has yet to be clarified. Careful interpretation of available information is essential. Traditional indicators of inputs (such as R&D expenditures, number of research workers) and outputs (such as patents) fail to measure fully countries' innovativeness and trends in innovation performance.

innovation, technology diffusion, human resources in science and technology and interrelations among different institutions.

**19.24 Innovation and productivity growth.** Innovation and productivity growth go hand in hand. Labour productivity is a measure of the quantity of goods and services produced per unit of labour input. When output per unit of input rises, it is possible for some people to consume more without others consuming less, or even for everyone to consume more. In other words, higher productivity means a higher standard of living. Innovation, in turn, entails changing the goods and services we produce and how we produce them. However, the rate of labour productivity growth in Canada and other industrialized countries has declined dramatically since 1973. Thus, while this phenomenon is not unique to Canada, a number of recent reports have concluded that a productivity gap exists between Canada and the United States.

**19.25** Recent studies identify a number of factors accounting for our relatively poor productivity performance in relation to the United States: slower and weaker adjustment to the two energy price shocks, a slower rate of capital accumulation, a slower rate of adoption of best practice technologies, a slower rate of growth in research and development spending, weaker adjustment to the knowledge-based economy, and weaker competition in both product and factor markets. Some commentators have also

Exhibit 19.4

**Can Innovation Be Measured?**

There is a wide range of indicators of innovation or "innovativeness" in an economy and, depending on which one is used, a different sort of innovation gap emerges.

One of the most frequently cited measures (and the one that figured prominently in the gap analysis of the Organization for Economic Co-operation and Development) is research and development (R&D) expenditures, expressed as a percentage of the gross domestic product. Numerous variants of this measure distinguish between public and private expenditures, civil and defence, performers and funders, and so on. But the fundamental problem with the various measures is that R&D may be a necessary condition for improving innovation performance, but it is not a sufficient one. Research and development is an input into the innovation process, not an output. However, one of the most common output indicators — number of patents — is difficult to interpret since the propensity to patent varies considerably across countries and even across industries within the same country.

Alternatively, speed, flexibility and timing are hallmarks of innovation. So the speed with which firms acquire and apply new technologies, the "speed to market" new products, and the percentage of sales accounted for by new products are also relevant indicators.

Next, many firms that do not undertake R&D nevertheless use technologically sophisticated inputs in their production process. One approach to the measurement of technological innovativeness is therefore to first develop a ranking of the technological sophistication of intermediate inputs and then, using an input-output framework, characterize industries as to their degree of technology use. A somewhat analogous approach can be used to classify industries into high-, medium- and low-knowledge intensities.

The word "knowledge" in the term "knowledge-based economy" suggests a variety of measures addressed to the people side of the innovation equation. These might include proxies for skill levels such as the educational attainment of the work force, the proportion of "knowledge workers", research and development researchers per 10,000 in the labour force, etc. Expenditures on and enrolments in universities are a crude but comparable indicator of the knowledge infrastructure.

It is also important to distinguish innovation reflected in the use of hard technologies (robots, computers, lasers, etc.) from soft or complementary technologies (organizational change).

In summary, innovation can probably be measured but no one measure will do. A balanced assessment of innovation performance requires reference to a comprehensive range of indicators.

cited relative tax rates as a key reason why American productivity growth has outstripped our own. Others cite smaller scales of operation, and a low Canadian dollar shielding less productive firms. Although spending on research and development has some role to play, there is clearly no one factor that explains this productivity gap.

**19.26** **Summing up.** It is difficult to do justice to these broad economic issues within the context of this chapter; however, a number of observations can be offered:

- Assessing the innovation performance of the economy is a multifaceted challenge for which little comprehensive information yet exists.

- It is reasonably clear that better innovation performance depends on more than just spending on research and development; it involves supporting research and development with the activities needed to embed new technologies in the economy.

- Spending on research and development is not the only determinant of the Canadian economy's rate of productivity growth, and may not be the most important one.

**Focus of the audit**

**19.27** We audited the following programs:

- Industrial Research Assistance Program — National Research Council

- Research Partnerships Program — Natural Sciences and Engineering Research Council

- Networks of Centres of Excellence — NSERC

- Technology Partnerships Canada — Industry Canada

These programs represent most of the funding within the Industry Portfolio directed to improving the innovation capacity of industry.

**19.28** With the previously noted issues in mind, we examined whether management:

- could show that these programs are designed to improve Canada's innovation performance;

- exercises due diligence in investing in innovation projects; and

- knows if the programs are achieving value for money.

**19.29** This audit brings attention to what constitutes due diligence in assessing applications for grants and contributions. In our view, the assessments supporting decisions to make grants and contributions need to be as thorough as the circumstances require and they need to be documented so that subsequent review and performance measurement are possible. Due diligence does not imply exhaustive analyses in all cases; it simply means ensuring that funding decisions take all of the project assessment criteria into account and that they are based on reliable information. Further details on the audit can be found in the section **About the Audit** at the end of the chapter.

**Better innovation performance depends on more than just research and development spending.**

## Observations and Recommendations

### Addressing the Innovation Gap

**19.30** In 1996 the government introduced its strategy, *Science and Technology for the New Century.* One of the purposes of the strategy was to improve the governance and management systems for federal science and technology (S&T) so as to make the government a more effective partner in the country's innovation system. The Minister of Industry, in response to the S&T strategy, set out the following role for his portfolio: "The Portfolio will use its unique tools and capabilities, maximizing

linkages and partnerships, to help Canada become a world leader in knowledge-based innovation that will result in jobs, exports and economic growth."

**19.31** This message is repeated in various ways in many recent reports to Parliament by Industry Canada, the Natural Sciences and Engineering Research Council, and the National Research Council. For example, the government's 1998 report on federal science and technology, *Building Momentum*, claims that Technology Partnerships Canada has become an effective tool for closing the innovation and productivity gaps; the 1999–2000 Report to Parliament on Plans and Priorities of the Natural Sciences and Engineering Research Council states that its financial support for university-industry research projects leads to new products, processes and services; and the National Research Council (NRC) reports that the Industrial Research Assistance Program (IRAP) activities stimulate the innovative capacities of Canadian small- and medium-sized enterprises.

**There is no strategy or framework for any of the programs we audited that links spending decisions to an innovation gap or gaps.**

**19.32** Accordingly, we looked at whether management had a strategy that linked the funding of individual projects carried out by or in partnership with business to specific aspects of the broader government goal of improving innovation performance in the economy. In particular, we wanted to know how these programs were supposed to address specific gaps in innovation performance and to what extent.

**19.33** In supporting innovation, a number of overlapping roles are possible, including:

- encouraging the invention and introduction of new or improved technology;
- making firms aware of existing technologies;
- adapting existing technology to new uses; and
- helping firms improve their innovation capacity — that is, helping them improve the assets, processes and tools that keep them competitive.

**19.34** In addition, programs may support business innovation by contributing to national and regional innovation systems — for example, by supporting the training of university students through funding for business-university projects.

**19.35 Each program supports innovation.** Each of the programs we audited makes grants or contributions (IRAP provides advice as well) to carry out one or more of these roles. We found that management of each program is developing goals and measures for assessing performance in relation to these roles. However, these goals and measures are not yet used to manage program activities. In the case of the Networks of Centres of Excellence program, efforts have been made to establish broad goals that capture the program's intended impact on innovation performance. Nevertheless, the expected results for these programs are not expressed in innovation performance terms — in particular, in terms that capture the intended impact on innovation systems. Clear statements of expected results are prerequisites to sound program design and management, and to measuring and interpreting the actual results achieved.

**19.36** While each program undoubtedly contributes to improving innovation performance, there is little information on the extent of that contribution or its significance. We found that no strategy or management framework (with goals and targets) existed for any of these grant and contribution programs, linking spending decisions to an innovation gap or gaps. Nevertheless, program management has taken steps to develop broad approaches to supporting innovation. Technology Partnerships Canada, for example, has

developed a plan explaining what kind of projects it wants to support whereas IRAP takes a decentralized, community-based approach that is intended to be reactive and industry-driven. However, these initial steps are general in nature, and are not yet associated with clear results and performance measures. Before adequate management frameworks can be developed, certain basic questions have to be answered. What improvement in innovation performance, and in which aspects, is expected from the money spent either on a program or on a project-by-project basis? How has innovation performance actually improved as a result of program spending? Until management is able to answer these questions, it cannot be confident that it is achieving the most value for money in funding particular projects.

**19.37 Toward a coherent portfolio approach.** The government's 1996 S&T strategy, and subsequent reports to Parliament, imply a focussed, co-ordinated approach by the Industry Portfolio to addressing innovation performance problems in the Canadian economy and thereby improving the rate of productivity growth. While the Portfolio is working on such an approach, we believe that it needs further development. Moreover, management recognizes that there is an important opportunity for Industry Portfolio programs to work in concert. To do this, management needs to agree on what innovation performance issues can be best addressed by the Portfolio and what results are expected from each of its grant or contribution programs.

**19.38** Good program design is at least partly based on good information and on an analysis of the issues being addressed — why they exist, how important they are, and what can be done. As discussed in the introduction to this chapter, there are a number of fundamental issues concerning innovation performance for which good information does not yet exist, although Statistics Canada is working on gathering this information. By working collaboratively, management in the Industry Portfolio will be able to improve the available information as a basis for good program design.

**19.39 Industry Canada, the National Research Council and the Natural Sciences and Engineering Research Council should provide Parliament with information on the following issues:**

- **What does innovation performance of the economy mean?**
- **What specific innovation performance problems are Industry Portfolio programs supposed to address?**
- **What specific results are expected from Industry Portfolio programs toward addressing these problems?**
- **Are these expected results being achieved?**

***Industry Canada, National Research Council and Natural Sciences and Engineering Research Council joint response:*** *The Industry Portfolio is engaged in a long-term effort to focus its reporting to Parliament on performance measures. This effort will become evident as the Reports on Plans and Priorities and the Performance Reports of Industry Portfolio departments and agencies evolve in the future. It is important to recognize, however, that few programs in government, and even fewer departments and agencies, exist with a single objective. For many of the Industry Portfolio programs that address one or more facets of Canada's innovation gap, other, complementary objectives are also important. The various dimensions of the innovation gap between Canada and our competitor nations are being addressed to bring about the long-term result that knowledge is put to new use in more organizations in the private, public and not-for-profit sectors more frequently, and*

Management needs to agree on what innovation performance issues can be best addressed by the Industry Portfolio.

*more quickly. The strategy to bring this about includes:*

- *documenting the role innovation plays in Canadians' standard of living and quality of life and promoting its understanding, throughout Canadian society;*

- *increasing the creation of knowledge in Canada and improving access to and diffusion of knowledge created in Canada and abroad;*

- *encouraging the early consideration of applications of knowledge and speeding its application to processes, products and services; and*

- *ensuring that Canada's market frameworks encourage the development of knowledge and innovation.*

*The success of this strategy depends on several factors. One key factor is the development of highly qualified people with the skills and education to create new knowledge and transfer that knowledge to those who will put it to use. A second success factor is the strengthening of national and regional innovation systems.*

*Statistics Canada is involved in developing a set of indicators of innovation performance, and private sector organizations, for example, the Conference Board of Canada, are developing complementary approaches to monitoring Canada's innovation performance. These are being studied and adapted in designing and refining appropriate methodologies for performance measurement in the Industry Portfolio.*

## Industrial Research Assistance Program

**19.40** The National Research Council delivers the Industrial Research Assistance Program (IRAP), which helps small- and medium-sized enterprises (SMEs) develop and exploit technologies. In 1998–99, IRAP had a budget of $120 million, $76 million of which was spent in contributions to individual SMEs.

**19.41** IRAP has a field staff of about 260 industrial technology advisors, located in 90 communities across Canada, who assist SMEs in resolving their technology-related problems, or in exploiting opportunities. About 30 percent of the technology advisors are National Research Council employees. The rest work in over 130 public and private sector organizations that participate as IRAP network members. IRAP has contribution agreements with each network member for the salaries and other expenses of network technology advisors.

**19.42** IRAP also co-ordinates the Canadian Technology Network, which comprises 1,000 members nationally and is an informal affiliation of organizations that provide assistance to SMEs. We did not examine IRAP's role in the Network.

**19.43** We selected a sample of 120 contributions to firms from 1994 to June 1999. The amount of funding provided ranged from $1,000 to $998,000. We also examined selected contribution agreements with network members.

**19.44** In 1996, IRAP went through an extensive strategic planning exercise. At the same time, a separate review of the program concluded that although IRAP was successful in helping SMEs become more innovative, management practices needed significant improvement. The objectives and direction set out in IRAP's new strategic plan led to specific changes to the terms and conditions of the program in 1998 for its contributions to firms and to network members. Although IRAP had focussed for many years on building the innovation capability of SMEs through improving their technological competence, this role was made explicit in its new objective and in the project assessment criteria (see Exhibit 19.5). As a result of these recent changes, IRAP was in a period of transition during our audit as it developed and applied the tools its technology advisors need to assess and

help firms make improvements in innovation capacity.

### Concerns about support for funding decisions

**19.45** The current objective of IRAP's contributions to firms is to stimulate innovation in Canadian small- and medium-sized enterprises and to enhance their innovation capabilities by enabling recipients to undertake innovation-related activities they would not otherwise be able to undertake.

**19.46** We expected that IRAP's funding decisions would take into account all the criteria established for assessing potential projects and that these decisions would be based on reliable information. We recognize that many contributions under IRAP are for relatively small amounts, and an exhaustive analysis should not be required. For example, 43 of the projects we audited received less than $15,000 in funding. Nevertheless, we expected that to meet the requirements of due diligence, there would be at least minimal information supporting the assessment of each of the criteria for all contributions.

**19.47** We found that only about 15 percent of the funding decisions were based on an assessment of all of the project criteria, mainly because the need for IRAP support had not been considered. We also found a range of practices in assessing the other criteria — in particular, how projects would improve the technological competence of funding recipients. In our view, the assessment of individual funding criteria for many projects was not sufficiently thorough.

**19.48 Little support for need for funding.** We expected that the project files would provide an explanation of why IRAP funding was necessary for the project to proceed, since this is a key test of the need for government financial support. This test is commonly referred to as incrementality, because it means funding worthwhile projects that would not have proceeded otherwise with similar results. However, we found that the need for IRAP funding was not explained for 84 percent of the projects. In these cases, we could find no evidence that incrementality was considered in IRAP's funding decision. We found examples where the companies receiving assistance have annual sales ranging from $6 million to $31 million and yet have received funding ranging from $1,000 to $225,000. Although these firms might have been new to research and development, it was not explained why they needed IRAP assistance for their projects.

**19.49 Assessments often limited to technical feasibility.** As discussed previously, IRAP changed the assessment criteria in 1998 to explicitly include improving the innovation capability of SMEs. Nevertheless, for some time before that, IRAP management had formally stated that it wanted to support projects that had an enduring impact on the technical competence of the firm rather than a one-time process or product innovation. Under the previous assessment criteria, for example, the assessments of applications for funding were supposed to judge how much improvement a project would make in the technology base of the firm.

**For over 80 percent of the files we audited, the need for government funding was not explained.**

Exhibit 19.5

**Industrial Research Assistance Program — Assessment Criteria**

All financial assistance to business under the Industrial Research Assistance Program must be assessed against these basic criteria:

- the willingness and ability of the recipient to enhance the innovation capability of the recipient or the firms it represents;
- the potential impact of the proposed project on the recipient's innovation capability;
- the potential impact of the project on the recipient's competitiveness or on that of the firms it represents;
- the potential socio-economic benefit of the project for Canadians;
- the need for financial contribution; and
- the degree and nature of the uncertainty and risk.

There was a wide range of practices in assessing benefits to the firms.

**19.50** For most of the projects we audited, the assessments of technical feasibility were reasonably complete and thorough. What was less clear was how much projects would increase the technological competence or innovation capability of the funding recipients. We found a wide range of practices in how technological competence or innovation capability were defined and considered in project assessments. We also found that technology advisors have not yet been provided with the tools they need to assess and help with improving the innovation capacity of client firms.

**19.51** **Expected business benefits not always considered.** In the project assessments, the expected benefits from the proposed projects are expressed as increased sales, cost reductions or jobs. These projections are used as indications of increased competitiveness, which is one of the funding criteria for the program. We appreciate that detailed projections of sales or cost reductions are too speculative to provide reliable support to research and development (R&D) proposals. However, we expected that, at the very least, the plausibility of the projected sales and market potential for the end products would be challenged. Instead, we found a range of practices in assessing benefits to firms. For about 10 percent of the projects, we could not satisfy ourselves that these benefits had been properly considered in the funding decisions.

**19.52** As mentioned previously, the depth of analysis underlying a funding recommendation varies according to the significance of IRAP's financial involvement. For larger projects, expected benefits are normally better explained and substantiated. However, regardless of the amount of funding provided, we believe that IRAP has not properly assessed the merit of a project unless it examines the rationale for expected business performance improvements.

**19.53** IRAP asks applicants to identify socio-economic benefits to Canada from their projects. Applicants normally identify desirable business impacts, such as increases in their firms' revenues and work force or at least the maintenance of existing jobs. Jobs created or maintained are considered a socio-economic benefit. We found that expectations of job creation or maintenance were not adequately supported, even taking into account the uncertainties in R&D outcomes.

### Mixed program performance information

**19.54** Management has made various efforts to assess IRAP's performance over the past several years. Despite the limitations and ambiguities in performance information, it appears that IRAP has contributed to the technological development of many SMEs. However, when we consider the available performance information along with the weaknesses in project assessment that we found, it is clear that IRAP's performance could be improved.

**19.55** **Incomplete information on project results.** We expected that IRAP would know if funded projects were achieving the expected technical and commercial results. However, there was often little information on file concerning the success of projects. Although final reports on the technical performance of projects are required, about one third of the completed projects we audited did not have one.

**19.56** In addition, we noted that some regional offices require technology advisors to report on results an average of six months after project completion. These reports were available for 60 of the 90 completed projects. While these reports provide some information on project results, such as the number of jobs created, there is no explanation of what produced these results or how the innovation capacity of the firms was improved. Nevertheless, we also found

other information on file suggesting that the majority of projects had at least met their technical goals of developing technology.

**19.57 Results of advisory service unclear.** As discussed previously, IRAP has about 260 technology advisors, 70 percent of whom are not National Research Council employees. Although technology advisors spend a considerable portion of their time providing advice to clients, IRAP has not set expected results for its advisory services, nor does it track the results. We expected that IRAP would at least be aware of the extent to which the information needs of its clients were being properly identified and met.

**19.58** Under the agreements signed with member organizations, network technology advisors are expected to set annual objectives and report performance toward those objectives monthly and annually. However, we found that expected and actual performance are described almost entirely as activities (number of clients visited, telephone calls, networking activity, professional development) and not as results. In other words, it is unclear what results the advisory services expect to or actually do achieve. IRAP management is not certain what help was requested by its clients and what its advisors did for them.

**19.59 Incrementality needs clarification.** IRAP regularly surveys the companies it funds and asks what difference its contributions and advice made. In our view, the results of these surveys suggest that the majority of the projects funded by IRAP may have gone ahead anyway without IRAP funding or advice. It appears that IRAP's financial support facilitates projects rather than making the difference between whether they proceed or not.

**19.60** We examined the results of these client surveys from 1996 to 1998. In each of these years, about 40 percent of respondents indicated that their project had needed IRAP funding to proceed. The remaining 60 percent reported that they would have proceeded anyway without IRAP funding, although perhaps more slowly or with added difficulty. A separate survey in 1996 found that the majority of respondents considered IRAP support helpful for their projects. However, 40 percent indicated that they would have gone ahead if IRAP funding had been smaller; and 17 percent did not know.

**Client surveys suggest that 60 percent of the projects would have proceeded without funding under the Industrial Research Assistance Program.**

**19.61** What is unclear from the results of these surveys is whether the projects would have proceeded with the same scope and achieved similar results. Undoubtedly, IRAP funding mitigates some of the risk for these firms by reducing their direct investment and therefore potential losses if the project fails. However, mitigating the risk of projects that would have proceeded anyway is not a formal objective of the program.

**19.62** In addition, IRAP asked firms that had received funding for their projects about the usefulness of its advisory services. Only 13 percent of survey respondents reported that the project would not have proceeded if technical assistance had not been provided; 30 percent of recipients indicated that IRAP advisory services had no effect and the remainder reported that they would have gone ahead with the project, although with added difficulty.

**19.63** This survey information on performance, while insufficient to support a definitive conclusion, suggests that many projects might not have needed IRAP's funding or advice to proceed. The true incrementality of IRAP support needs further investigation.

**19.64 Job creation may be overstated.** IRAP contributes to job creation in two ways. First, direct jobs may be created when technical staff are hired by the client to work on an IRAP-supported project. Second, new jobs may be created from the commercialization of a product or process

Benefits of the projects, such as jobs created, may have been overstated.

resulting from a project to which IRAP was one of the contributors.

**19.65** In recent public reports, IRAP has claimed that it creates between 9,000 and 10,000 jobs a year. This figure is based on a 1995 study that IRAP did on jobs created, saved or lost through all projects it had supported that terminated in fiscal year 1991–92. Many were multi-year projects, and this was taken into account in the study.

**19.66** Our review of the methodology followed in this study suggests that the job creation numbers may be unreliable for the following reasons. First, the elimination or loss of jobs in other firms is not considered. Second, incrementality (whether IRAP funding was needed for the project to proceed) and attribution (the extent to which the jobs can be attributed to IRAP's support for a project) may not have been adequately considered, leading to an overestimation of IRAP's role in job creation. In our view, any job creation and maintenance numbers reported by IRAP need careful explanation and qualification.

**19.67 Limited program evaluation.** We examined two evaluation reports, respectively completed in 1990 and 1996, to determine whether IRAP had adequately assessed its performance. Both reports concluded that there is clear evidence that IRAP is successful in helping SMEs become technically capable. Management has informed us that IRAP's role in supporting Canada's innovation system was left aside in the 1996 assessment to concentrate on other issues. In our view, these evaluations provide only a limited perspective on the relevance, success and cost-effectiveness of IRAP.

**19.68 The National Research Council should:**

- **ensure that the decision to fund a project is based on an appropriate assessment of the project's merits and the firm's need for IRAP support;**
- **ensure that reliable information is gathered on the results of individual projects;**
- **establish results-based plans and performance measures for its advisory services; and**
- **conduct a program evaluation of IRAP that addresses all of the key evaluative questions.**

***National Research Council's response:*** *We note with satisfaction the chapter's expressed view that "IRAP has contributed to the technological development of many SMEs." This view is very strongly held by IRAP clients and by many other observers. Across all regions of Canada, IRAP's network of Industrial Technology Advisors provides extensive technical and business advisory services and, where necessary, financial assistance in nurturing companies and in assisting them to develop R&D projects.*

*We agree with the recommendations to improve the measurement of IRAP's performance, and share the opinion that we should provide industrial technology advisors and managers with the tools and information needed to make quality decisions, report on performance and manage the program effectively. We are already acting on the recommendations, and indeed some of the changes were in the process of development at the time of the audit, as outlined below:*

- *A program performance framework was approved in 1998–99. Under active development are: a model to understand IRAP's role in the innovation process, data collection instruments, assessment of incrementality, and plans to capture performance information, including a follow-up system for IRAP projects to record the downstream benefits against IRAP objectives.*

- *An upgraded quality assurance process is being implemented across the country and is providing information on due diligence in the project decision-making process, including the application of selection criteria. One result, initially for funded projects, will be a more visible record of the need for and anticipated benefits of IRAP assistance.*

- *A major business process improvement effort was initiated in April 1998 to modernize the IRAP client business process. This will enable the best use of information to support decision making close to clients, enhance collaboration, encourage sharing and learning, as well as measure impact and results. This process will continue to be the focus of our efforts.*

- *An information management plan and strategy is being prepared. This will guide the refinement of existing and development of new IRAP systems to be compatible with the recent adoption by NRC of a new large-scale, integrated enterprise business information system. The plan and strategy cover a comprehensive electronic database for project approval processes, project management, network interactions and project results.*

- *As part of its normal assessment schedule, NRC is planning to undertake an evaluation of IRAP, which will include addressing questions in the Auditor General's Report.*

*The IRAP program is in the midst of significant change as we strive to put in place new services, processes and systems to enhance the innovation capabilities of SMEs while building on our primary approach, which, as noted in the chapter "is decentralized...community-based... reactive and industry-driven." We are committed to continuing progress and improvement.*

## Research Partnerships Program

**19.69** The Natural Sciences and Engineering Research Council (NSERC) was created in 1978 and is a major source of funding for university-based science and engineering research and training in Canada. It is organized around two program directorates: Research Grants and Scholarships, and Research Partnerships.

**19.70** Our audit focussed on the Research Partnerships Program, which accounted for $95 million of NSERC's expenditures in 1998–99, and the Networks of Centres of Excellence program, which had expenditures of $47 million in 1998–99.

**19.71** The objective of the Research Partnerships Program is to foster interactions and partnerships between university researchers and other sectors in order to generate new knowledge and develop new expertise, and to transfer this new knowledge and expertise to Canadian-based organizations.

**19.72** In recent reports to Parliament, NSERC explains that one of its main goals is to facilitate the transfer of knowledge from universities to other sectors, and the commercialization of university-derived technologies. NSERC does this because university "partnerships with industry connect researchers with those who can use the new knowledge productively and thereby enhance Canada's capacity for innovation." In Part III of its 1997–98 Estimates, NSERC reported that it facilitates knowledge transfer from universities to other sectors, and the commercialization of university-derived technologies. Its financial support for industry-university partnerships leads to new products, processes and services.

**19.73** Putting this program rationale into practice, NSERC set the following criteria for deciding on which research proposals to fund through the Research Partnerships Program:

- **merit of the research proposal** (originality and quality of the research,

quality of the research team, benefits of the proposed research and its potential impact on Canada's economy, industry, society and/or environment);

- **interactions and partnerships** (nature and extent of contributions from participants, ability of the partners to exploit the research results to the benefit of Canada);

- **training** (extent to which all participants are involved in the training of highly qualified personnel); and

- **management and budgeting** ( funds requested from NSERC and contributions from other sources and its management).

Although the Research Partnerships Program is made up of several different types of grants (see Exhibit 19.6), these criteria apply to all of them. In practice, the emphasis and extent of analysis by criterion depends on the category of grant.

**19.74** For our audit, we selected a sample of 100 grants from the various categories of grants made from 1994 to 1997 under the Research Partnerships Program as well as seven Networks of Centres of Excellence grants made in the years 1994 to 1998.

### Concerns identified in support for funding decisions

**19.75** We expected that NSERC's spending decisions would be based on all of the criteria it has set for its Research Partnerships Program. Because of the differences in the type of research and development projects funded — basic to pre-commercial — we also expected that the extent of and support for analysis of each criterion would vary. Nevertheless, due diligence requires that all of the criteria be appropriately considered.

**19.76** We found that the scientific merit of the projects we examined had been well established, as had the potential for training. However, scientific merit deals with the originality and quality of the proposed research, not with its potential significance to industry or other partners, or with innovation capacity building. There was often little information on file explaining the significance of the expected benefits to the partner company, or the need for government support. In our view, proper examination of all of these issues is essential to determining whether a prospective project is likely to enhance industry's capacity for innovation.

**19.77 Scientific merit well evaluated.** The merit of the research proposals and the quality of the researchers were well evaluated. NSERC uses a system of project review committees consisting of researchers and industry representatives. In addition, projects are submitted to external referees who provide a written evaluation of each proposal. The use of external referees greatly expands the expertise available within the panel and

Exhibit 19.6

Grants Under the Research Partnerships Program

**Strategic grants** support high-quality pre-competitive university research that, if successful, will produce a specific economic, social, industrial or environmental benefit to Canada. Participation from outside the university is essential.

**Research Networks grants** fund large-scale, complex research proposals that involve multi-sectorial collaborations on a common research theme and that demonstrate the added advantages of a networking approach. These networks involve at least five researchers from three organizations that are not formally affiliated.

**University-Industry grants** support partnerships between industry and university that promote high-quality research of economic or industrial importance. The University-Industry projects include the following grants: Collaborative Research and Development, Industrially Oriented Research, Industrial Research Chairs, New Faculty Support and Chairs in the Management of Technological Change.

thus provides a vital source of information in the decision-making process.

**19.78 Little information on significance of expected results.** Given NSERC's criteria for funding and its statements to Parliament on the role of the program in developing partnerships that lead to new products, processes and services, we expected that funding decisions would take into account these kinds of expected results. Although the extent of this analysis would vary with the type of grant, we expected that the justification for funding a project would explain the usefulness and potential significance of the research results in pre-commercial and commercial terms.

**19.79** For about a third of the projects we audited, we could not assure ourselves that NSERC had adequately considered the significance of the research for the partners. While the link between the research and the company's operations was explained, the significance or extent of the potential benefit was not evident. For these grants, there was little explanation of how the projects might lead to significant new or improved products or processes or how much the firm's knowledge and skills would be improved. For the remainder of the grants we audited, these issues were adequately considered.

**19.80** NSERC has informed us that its project selection committees consider the expected benefits of the project to the partners, but this is not always documented. In our view, due diligence requires that the assessment of funding criteria be consistently documented so as to provide proper justification for decisions to spend public money and so that subsequent management review and performance measurement are possible.

**19.81 Little explanation of potential socio-economic benefits of proposed projects.** Beyond their impact on individual firms, research projects should have the potential to generate socio-economic benefits such as enhancing the country's economic strength and developing new industries. In general, little information was provided on the potential socio-economic benefits of the projects other than the training of qualified personnel and the creation of direct jobs. While this assessment is obviously difficult for certain types of research grants, NSERC has not developed specific indicators or other decision aids to help program officers and project selection committees to reasonably assess whether proposed projects are likely to achieve the desired results. Where on file, the descriptions of possible economic benefits were very broad in nature and not substantiated.

**For one third of the projects we audited, the significance or extent of the potential benefits to the partners was not evident.**

**19.82 No evidence that the need for funding was considered.** We expected that the project files would provide an explanation of why program funding was needed for the project to proceed. We found that the need for funding was not addressed in almost 90 percent of the projects.

**19.83 Few agreements on intellectual property rights.** One of the funding criteria for these grants is that the partners or other potential users must have the capacity to apply the research results in Canada. To avoid potential conflicts, NSERC recommends that the partner firms and the universities involved in the research proposals negotiate a research agreement before starting a research project. Usually, the university and/or the researchers employed by the university own the rights to the intellectual property arising from NSERC grants.

**For almost 90 percent of the projects we audited, the need for government funding was not explained.**

**19.84** Intellectual property agreements would not be appropriate for all types of grants. NSERC recommends, but does not insist, that these agreements be negotiated before starting a research project. Nevertheless, we found that NSERC was often unaware of whether an intellectual property agreement had been reached. This finding points to a lack of attention

to how projects will enhance Canada's innovation capacity.

Performance information says little about key results expected of the Research Partnerships Program.

**Limited performance information**

**19.85** As part of our audit, we examined whether management knows if the program is performing well. While the intended benefits and results of some of these projects may take time to realize fully, there are nonetheless a number of immediate benefits from NSERC support. These programs encourage university research and the advanced training of graduate students. They also increase the collaboration between the university, government and the private sector on a project-by-project basis. Reports to Parliament show that the number of firms involved with these programs has increased over time, as has the amount of money leveraged. Nevertheless, this performance information says little about performance in relation to some of the key results expected of the Research Partnerships Program.

**19.86** We noted the following limitations in measuring the results achieved by the Research Partnerships Program.

**19.87 Little information on impact of projects.** NSERC regularly receives progress reports and final reports from the research partners. These reports indicate whether the project's research and development goals are met; however, there is little information in the project files to indicate how the results of the research and development might be used to achieve commercial benefits such as patents, new processes or services or licences. Management informed us that in many of these cases, it is premature to assess possible benefits at the end of the project. However, in our view, project results need to at least be compared against the results expected when the project was approved and the likely pre-commercial and commercial benefits.

**19.88** In the sample of 100 files we examined, 11 projects had failed for various reasons while 31 were still ongoing and the remaining 58 had more or less achieved their objectives. However, we were unable to determine from NSERC's records whether the research results were used by industry partners following the completion of the projects.

**19.89 One formal evaluation done.** NSERC recently evaluated the performance of one type of grant under the Research Partnerships Program — its support for strategic projects. This evaluation found that, in order for the program to remain relevant, management should choose a clear role for it. As well, funded applicants indicated that many projects would not have proceeded without program funding. The evaluation also noted that little information on the results at either the program or the project level was available to management. The contribution of program funding to industrial, economic, social and environmental impacts was difficult to isolate from other effects. The evaluation recommended that the program objectives be more clearly defined and that performance indicators be used.

**19.90** A pilot study was conducted in 1998 to measure some of the outcomes of the Collaborative Research and Development grants. This was not a full evaluation, as it did not address all the required evaluation issues. The study was done through a survey and indicated that while some industrial collaborators created new processes, products, standards or services, others updated their knowledge and had access to new ideas as a result of the funded research projects. The outcomes of many other projects were still unknown at the time of the survey.

**19.91 The Natural Sciences and Engineering Research Council should:**

- **establish clear expected results for the Research Partnerships Program and report performance against them;**

- **ensure that the decision to fund a project is based on an appropriate assessment of the nature and significance of the project benefits and the need for NSERC support and is appropriately documented;**

- **ensure that reliable information is gathered on the results of projects, including the benefits to industrial partners; and**

- **conduct a program evaluation of the Research Partnerships Program that addresses all of the key evaluative questions.**

***Natural Sciences and Engineering Research Council's response:*** *Around the world, research is recognized as fundamental to building a successful innovation system. In Canada, university-based research is particularly important because the research capacity of both the private sector and governments is limited relative to other G–7 countries. NSERC supports both basic university research through research grants and project research through partnerships of universities with industry, as well as the advanced training of highly qualified people in both areas. The chapter examines one dimension of NSERC investments, the Research Partnerships programs. We are happy that the chapter concludes that "these programs encourage university research and the advanced training of graduate students" and "they [the Research Partnerships programs] also increase the collaboration between the university, government and private sector", thus achieving the goals and objectives of the Research Partnerships programs.*

*NSERC shares the Auditor General's goals of improving accountability and performance measurement. In that spirit, we accept the recommendations of this chapter. However, we feel obliged to raise a point about the context of the chapter. It must be remembered that university research in partnership with industry is very different from industrial research, where clearly defined commercial benefits can be identified. In the Research Partnerships Program, NSERC invites industry to share in the risk of conducting university research that is long-term and often without quantifiable expected results. The expectations of results, documentation and follow-up must take this into consideration, and they must be commensurate with the small size of the investment. For example, a typical project in the Research Partnerships Program is funded at less than $100,000/year and can be as low as $5,000, a very small fraction of the funding of a Network of Centres of Excellence. These awards go only to universities, and in response to applications that succeed in a peer-reviewed competition, where applications are assessed against criteria that include the potential for impact of the research results on Canada's economy, industry, society and/or environment. Many applications are turned down because they do not meet a high enough standard on these criteria. The chapter acknowledges that innovation, how it works, and how its performance is measured are very complex issues that are still not fully understood. Within this context, NSERC agrees that greater efforts are required to track the longer-term impacts of our investments, and therefore we are continuously improving performance measurement activities as our knowledge and understanding improve.*

## Networks of Centres of Excellence

**19.92** The Networks of Centres of Excellence (NCE) program is managed jointly by NSERC, the two other granting councils (Social Sciences and Humanities Research Council and the Medical Research Council) and Industry Canada. It focusses on building strong links among university, government and industry

researchers working in different disciplines and widely separated institutions, and on accelerating the transfer of new technology to the private sector. The objective of the program is to improve Canada's performance in science and technology, and to facilitate transfer of knowledge to those who can use it to advance Canada's social and economic development.

**19.93** In addition to our audit criteria, we assessed the NCE grants using the five selection and evaluation criteria for the program, namely: excellence of the research program, highly qualified personnel, networking and partnerships, knowledge exchange and technology exploitation, and network management.

**19.94** We concluded that due diligence had been exercised in the grants we audited under the Networks of Centres of Excellence. We found that for each proposal submitted, there was a complete description of the network and its planned research activities, and the files included all relevant information. Each proposal was assessed by an expert panel and examined by the selection committee for final approval by the steering committee.

**19.95** All the networks provide regular reports on the progress of the projects and site visits are done. Every agreement defines intellectual property ownership.

**19.96** Finally, a 1997 evaluation concluded that the Networks of Centres of Excellence program had succeeded in all of its objectives. While the report did not consider all of the basic evaluation issues, it suggested that the program will provide substantial net economic benefits.

## Technology Partnerships Canada

**19.97** Technology Partnerships Canada (TPC) was created in 1996 as a special operating agency within Industry Canada. The program is intended to promote the development and commercialization of innovative technologies that contribute to increasing economic growth and creating jobs and wealth.

**19.98** TPC has been directed to take an investment approach, sharing risks as well as returns, with all repayments being used to fund future investment opportunities. Repayments are normally based on royalties on sales. On average, the TPC sharing ratio is not expected to exceed 33 percent of eligible project costs. Some highly successful projects may return much more than the original investments to help offset less successful projects. TPC's annual budget is $300 million.

**19.99** To be eligible for funding, projects must be in a qualifying technology sector: environmental technology, enabling technology (that is, advanced manufacturing and processing technology, advanced materials, biotechnology and selected information technology) and aerospace and defence industries. TPC has been mandated to target one third of its funding to environmental and enabling technology.

**19.100** Between 1996 and the end of June 1999, TPC had made 81 contributions for a total of $827 million. We audited 30 contributions, representing $580 million and ranging from $161,000 to $100 million.

**19.101** We expected TPC to ensure that the projects represented value for money. To do this, funding decisions need to be based on and respect all the assessment criteria set for the program by the Treasury Board Secretariat, and should achieve a reasonable balance in meeting all of them.

### Due diligence in assessing business case issues

**19.102** We found that funding decisions adequately considered, and achieved a reasonable balance among, the following commercial issues:

- the significance of the proposed innovation to the firm and to industry;

- the expected project benefits to the firm;

- the recipient's ability to carry out the project and exploit the results commercially; and

- the likelihood of success.

**19.103** We concluded that TPC had exercised due diligence in assessing whether these projects represented value for money for the applicant to carry out.

**Support for funding decisions**

**19.104** We found that TPC's project assessments adequately addressed:

- applicant eligibility;

- the need for TPC funding;

- the expected leverage of new investment; and

- the net expected economic and other benefits.

However, we have the following concern.

**19.105 Little support for amount of contribution to three projects.** The amount of TPC's contribution is supposed to be based on an assessment of the minimum funding required by the applicant to proceed with the project and on the forecasted benefits for Canada.

**19.106** We found that TPC had assessed the minimum amount required by applicants for all the projects we audited, except in the cases of three large contributions. For these contributions, management claims that the justification for the amount of government funding included a challenge to the cost of the project, analysis of the project's socio-economic benefits, and historical knowledge of the industry. Based on this analysis, TPC concluded that the amount was the minimum required to make sure the project proceeded in Canada.

**19.107** Nevertheless, we expected that the specific amount of the contribution would be supported by an analysis of the company's ability to carry out the project without support, and the minimum TPC investment needed to make the project successful. Because TPC had not carried out this analysis for these agreements, we are concerned that it did not assure itself that the specific amounts of these contributions were the minimum needed for the projects to proceed.

**Performance monitoring and reporting**

**19.108** TPC is a relatively new program and management has spent the first years establishing due diligence practices for assessing proposed projects. Now that these practices are in place, management is turning its attention to improving project monitoring.

**19.109 Project and results monitoring could be improved.** We expected that TPC would monitor the progress of funded projects and ensure that the applicant is meeting all its obligations under the funding agreement.

**19.110** TPC assures itself prior to payment of a claim that funds are being used for the purposes agreed. We noted that TPC monitored the progress of projects through some site visits and that it had conducted a few audits to date. However, TPC does not yet systematically monitor project results. For example, recipients are required to send semi-annual and annual reports. Those reports are supposed to contain information on progress and the project's contribution to jobs and economic growth. TPC does not ensure that all the reports are received on time and there is little information on actual jobs created. Although we found audited financial statements on file, there was no evidence that such information was reviewed on an ongoing basis to help assess the continued viability of the companies or the projects.

**So far, little attention has been given to monitoring projects and results.**

**We concluded that Technology Partnerships Canada had exercised due diligence in assessing the business cases for the projects.**

**Reporting to Parliament**

**19.111** We examined TPC's reporting to Parliament. Since TPC supports longer-term projects and it will take time to achieve substantial results, its reporting to date has been on projected performance.

**19.112 Leveraged funds need to be explained.** TPC has reported that during the first two years of its operations, it invested $563 million of public funds that would leverage $2.4 billion of new private sector investments. For about $400 million of the new private sector investment, we found that TPC had also counted other government funding, federal and provincial research and development income tax credits, investments prior to project funding and possible future investments in related projects, as well as money spent outside the country. TPC ought to disclose the sources and uses of leveraged funds to avoid misinterpretation.

**19.113 Reporting to Parliament needs clarification.** We examined how the program's approach to making contributions is described in reports to Parliament. Under its terms and conditions, one of TPC's objectives is to manage its contributions by taking an investment approach through sharing in returns as well as risks.

**19.114** Reports to Parliament have repeated this performance expectation. For example, Industry Canada's 1999–2000 Report to Parliament on Plans and Priorities states, "The assistance is fully repayable, with TPC sharing in both the risks and rewards of the projects with its partners." TPC's most recent annual report states that "the program supports the private sector through investment rather than subsidy, sharing in both risks and rewards."

**19.115** However, we found that the reports do not explain how management interprets these aspects of TPC's mandate. In particular, there is no explanation of the basis for or extent of sharing risks and returns with firms. In practice, how TPC shares risks and returns varies significantly among agreements. Under many agreements, TPC will recover its contribution through royalties on all sales of the supported product or technology, starting with the first sale. Under other agreements, TPC assumes more risk by starting to receive royalty payments only after several years of sales or after a certain number of products are sold. For still other agreements, royalty payments are structured in such a way that TPC's contributions are unlikely to be fully repaid.

**19.116** Management has indicated that specific repayment terms are negotiated on a case-by-case basis and are arrived at by assessing applicant need, firm and project risk and the magnitude of the strategic benefits that would result if the project is undertaken in Canada. Management also informed us that it must balance the objective of "taking an investment approach through sharing in returns as well as risks" with other TPC program objectives such as increasing economic growth and wealth creation.

**19.117** Nevertheless, in our view, proper reporting to Parliament requires that TPC explain how it interprets and acts on key parts of its mandate. In particular, the meaning of "taking an investment approach through sharing in returns as well as risks" and the extent to which contributions are "fully repayable" need to be better explained in any report to Parliament.

**19.118 Industry Canada should ensure that:**

- **there is appropriate justification for the specific amount of all contributions; and**
- **the performance of projects funded by Technology Partnerships Canada is appropriately monitored.**

**In its reports to Parliament, Industry Canada should:**

- **explain the sources and uses of funds leveraged by its contributions; and**
- **provide information to clarify:**
  - **the extent to which TPC shares risks and returns;**
  - **the basis on which TPC shares risks and returns, including the main factors taken into consideration when establishing royalty payments; and**
  - **the extent to which contributions are "fully repayable".**

***Industry Canada's response:*** *The Department notes that the Auditor General concluded that Technology Partnerships Canada exercises due diligence in assessing projects. One key aspect in this regard is the assessment of the minimum amount of assistance required to make sure that projects beneficial to Canada proceed. The information set available to make such a determination varies from project to project and consistently requires the application of considerable judgment. As explained in paragraph 19.106, management is of the opinion that it does take all reasonable measures to ensure that there is appropriate justification for the specific amount of all contributions. The few specific projects that gave rise to the Auditor General's observation do not follow the traditional nature of product development assistance. TPC, therefore, developed alternative evaluation strategies in support of their assessment. The Department believes this approach was and is appropriate for these projects.*

*As indicated in the chapter, TPC is a relatively new program and management has appropriately concentrated on, first, establishing rigorous due diligence processes for assessing proposed projects and, second, the effective management of the processing of claims. Management will now focus on ensuring that funded projects are appropriately monitored. To this end, all investments will be reviewed, client reporting requirements brought up to date, and a comprehensive portfolio monitoring system implemented before 31 March 2000.*

*In reporting leverage, TPC's intent is to communicate additional levels of innovation spending generated as a result of TPC investments. Therefore, TPC leverage data focus on the* use *rather than the* source *of spending. In the future, TPC will more fully describe the basis on which it reports leverage so as to ensure a more comprehensive understanding.*

*TPC's objective is to invest to maximize the number of projects at the minimum level of support required, and hence also to maximize the private sector investment leveraged. In some circumstances, this results in accepting greater repayment risk in order to ensure that projects proceed. The framework within which TPC operates is complex and requires judgment and trade-offs to arrive at the best mix of risks as well as rewards. Given the public policy mandate of the program, its risk and reward sharing is not restricted to merely the financial aspects of the investments. The Department will expand future reporting to be included in TPC's Annual Report, which is tabled in Parliament.*

## Conclusion

**19.119** We examined whether management of the programs we audited:

- could show that these programs are designed to improve Canada's innovation performance;
- exercised due diligence in investing in innovation projects; and

- knew if the programs were achieving value for money.

**19.120** We found that management of each program is developing goals and measures for assessing performance. However, the expected results for these programs are not expressed in innovation performance terms. Clear statements of expected results are prerequisites to sound program design and management, and to measuring and interpreting the actual results achieved.

**19.121** We concluded that there are significant opportunities for management to improve the exercise of due diligence in approving contributions under the Industrial Research Assistance Program (IRAP) and grants under the Research Partnerships Program.

- We found that only about 15 percent of the funding decisions under IRAP were based on an assessment of all of the project criteria, mainly because the need for IRAP support had not been considered. We also found a range of practices in how the other criteria were assessed — in particular, how projects would improve the technological capability of recipients. In our view, the assessment of individual funding criteria for many projects was not sufficiently thorough.

- For the Research Partnerships Program, we found that the scientific merit of the projects we examined had been well established, as had the potential for training. However, scientific merit deals with the originality and quality of the proposed research, not with its potential significance to industry or other partners, or with building innovation capacity. We found that there was often little information on file explaining the significance of the expected benefits to the partner company, or the need for government support.

**19.122** For both IRAP and the Research Partnerships Program, we found important performance issues for which management had little information.

- We noted that various efforts have been made to assess the performance of IRAP services. Nevertheless, management needs to gather reliable information on the results of funded projects and its advisory services, and to investigate the extent to which its funding supports projects that would not have proceeded otherwise. In our view, any job creation numbers reported for the program need to be carefully explained and qualified.

- We also noted that the information gathered on the results of projects funded under the Research Partnerships Program is limited to success in relation to research goals. There is little information on the success of the projects relative to the commercial and pre-commercial benefits expected when they were approved. As well, only one part of the program had been recently subjected to a program evaluation.

**19.123** We concluded that due diligence had been exercised in the grants we audited under the Networks of Centres of Excellence program. A 1997 program evaluation concluded that the program had succeeded in all of its objectives. Although the report did not consider all of the basic evaluation issues, it suggested that the program will provide substantial net economic benefits.

**19.124** We also concluded that management of Technology Partnerships Canada had exercised due diligence in making the contributions that we audited, with some specific exceptions. Nevertheless, project and results monitoring and reporting to Parliament on expected performance need to be improved.



# About the Audit

## Objectives and Scope

Our audit covered four programs in the Industry Portfolio — the Industrial Research Assistance Program (IRAP), the Research Partnerships Program, the Networks of Centres of Excellence and Technology Partnerships Canada (TPC).

Specifically, we examined whether management of the programs we audited:

- could show that these programs are designed to improve Canada's innovation performance;
- exercised due diligence in investing in business innovation; and
- knew if the programs were achieving value for money.

## Approach

We examined project files, analyzed data and documentation and conducted interviews with officials for each of the selected programs. We reviewed relevant literature and studies, and also did some site visits on a sample of projects.

## Criteria

We expected that management would assure itself that each project represents value for money (for the applicant to carry out) by determining:

- the significance of the innovation;
- the expected project benefits;
- the recipient's capability to carry out the project and exploit the results successfully; and
- the likelihood of success.

We expected that management would assure itself that the project represents value for money (for the program to fund) by determining:

- eligibility;
- compatibility with program objectives and existing portfolio of grants or contributions;
- need for assistance/expected leverage;
- net expected economic and other benefits; and
- likelihood of repayment (TPC).

We expected that management would exercise due diligence in providing advice to meet client information needs (IRAP).

We expected that management would assure itself that the program is achieving expected results by assessing whether :

- project goals are met;
- expected project benefits are realized;
- expected net economic benefits are realized;
- conditions of funding are respected;
- repayments owed the Crown are made (TPC); and
- advice meets clients' needs (IRAP).

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# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 – September 1999


| Chapter | |
|---|---|
| | Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999

## Table of Contents

## Volume 2 – September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |

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# Report of the Auditor General of Canada to the House of Commons

## Chapter 20
Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries

**November 1999**

Report of the

# Auditor General of Canada

to the House of Commons

## Chapter 20

Fisheries and Oceans – Pacific Salmon:
Sustainability of the Fisheries



November 1999

*This November 1999 Report comprises 14 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, September and November 1999 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.*

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# Chapter 20

## Fisheries and Oceans

Pacific Salmon: Sustainability of the Fisheries

*The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.*

# Table of Contents


| | Page |
|---|---|
| **Main Points** | 20–5 |
| **Introduction** | 20–7 |
| Focus of the audit | 20–9 |
| **Observations and Recommendations** | 20–9 |
| **The Troubled Pacific Salmon Fishery** | 20–9 |
| Catches have declined | 20–9 |
| The resource base is being eroded | 20–9 |
| **Sustainability Will Depend on Sound Planning** | 20–11 |
| The Department's planning record at the national level is poor | 20–11 |
| Implementing a new management regime | 20–12 |
| **The New Management Challenge** | 20–14 |
| Biodiversity-based conservation | 20–14 |
| Basic information on stocks and habitats is incomplete | 20–15 |
| The Department is not making best use of the Aboriginal Fisheries Strategy (AFS) | 20–17 |
| Improved process for reviewing scientific information and advice | 20–18 |
| Toward integrated fisheries management planning | 20–19 |
| The importance of Integrated Fisheries Management Plans | 20–19 |
| The use of selective fishing methods | 20–20 |
| Reducing the size of the commercial salmon fleet | 20–22 |
| Allocation issues persist | 20–23 |
| **The Support and Participation of Stakeholders Are Essential** | 20–24 |
| Consultation problems have not been addressed adequately | 20–24 |
| Canada–British Columbia relations | 20–26 |
| Identifying costs and setting priorities | 20–26 |
| **Conclusion** | 20–28 |
| **About the Audit** | 20–29 |
| **Exhibits** | |
| 20.1 Glossary | 20–8 |
| 20.2 Pacific Salmon Catch Data (1991–1998) | 20–10 |
| 20.3 Pacific Region Commercial Salmon Catch Values (1991–1998) | 20–10 |
| 20.4 Elements of A New Direction for Canada's Pacific Salmon Fisheries | 20–13 |
| 20.5 Precautionary Approach to the Management of Fisheries | 20–14 |
| 20.6 Pacific Commercial Fleet Reduction Since 1996 | 20–23 |
| **Appendices** | |
| A Coho Case Study — The Development of a Fisheries Management Crisis | 20–30 |
| B Conditions Necessary to Achieve Sustainable Fisheries | 20–32 |

# Fisheries and Oceans

## Pacific Salmon: Sustainability of the Fisheries

## Main Points

**20.1** The Pacific salmon fisheries are in trouble. Catches have declined overall, but the commercial catch has plummeted. The long-term sustainability of the fisheries is at risk because factors like overfishing, habitat loss, and declining ocean productivity have eroded the resource base. The result is a fisheries management crisis that has cast a cloud of uncertainty over the future of the salmon fisheries. Salmon fishing will continue, but more stringent controls are needed in the short term to ensure that salmon survive for the benefit of future generations.

**20.2** The management challenge for the Department of Fisheries and Oceans is to conserve existing stocks and rebuild those that are at low levels, while maintaining the viability of the fisheries. It will have to adapt its management regime to the new realities and gain the acceptance and support of stakeholders if it is to be successful. These will be difficult tasks to accomplish.

**20.3** The Department now needs to:

- identify information needs and priorities;
- review the consultation process and identify areas for improvement;
- implement integrated fisheries management plans;
- complete the downsizing of the fleet as a priority;
- establish an independent allocation board; and
- develop a better working relationship with the Province of British Columbia where fishery issues are concerned.

**Background and other observations**

**20.4** The Department has already taken the first steps to address the challenges it faces. It has affirmed conservation as its primary objective to protect existing salmon stocks and rebuild the resource base. In 1998 it announced a new policy, *A New Direction for Canada's Pacific Salmon Fisheries,* to direct its management activities in the future. The regional office has developed and is implementing its strategic plan for 1998–2001 based on this policy.

**20.5** In addition to the management of larger stocks targeted primarily by the commercial fishery, the regional office has begun to focus more on the conservation of smaller stocks that are important to the Aboriginal and recreational fisheries. It has taken a conservation-based approach to fisheries management and is testing selective fishing methods and gear, in addition to implementing special programs such as fleet reduction and restructuring. However, there are areas that need attention if policy objectives are to be attained. The most important are improving regional databases and information management to enable it to manage Pacific salmon on a stock-by-stock basis, and resolving consultation problems to improve stakeholder relations and move toward forming partnerships to share management responsibilities and offset costs.

**20.6** The Department will need time to adjust to the new management regime. During this time, fisheries will be subject to closure to allow stocks to recover. Improvements cannot be expected to occur quickly, given that

salmon life cycles can extend to five years or longer and salmon need time to adjust to changes in their freshwater and marine habitats. Finally, the future sustainability of the fisheries will depend not only on the Department's ability to implement its New Direction policy but also on its success in enlisting the help of stakeholders and the provincial government to share the workload.

**The responses of Fisheries and Oceans to our recommendations are included in this chapter. The Department agrees with all 13 recommendations and notes that initiatives are under way in several areas.**

## Introduction

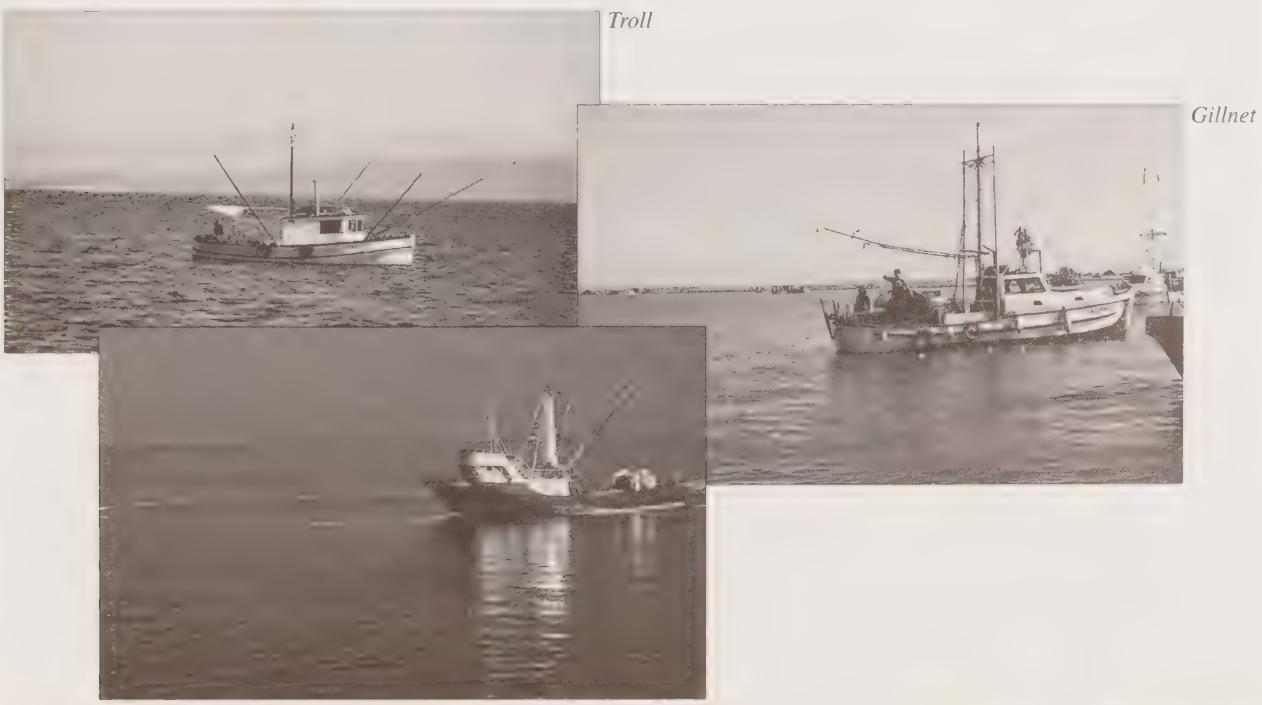
**20.7** Salmon are important to Canadians and, to British Columbians, serve as a powerful symbol of the quality of life. They generate a wide range of economic, social and cultural benefits for a broad spectrum of interests — the commercial and recreational fishing sectors together with the processing and service industries, First Nations, the federal and provincial governments, environmental groups and the public.

**20.8** Pacific salmon are caught in commercial, recreational and Aboriginal fisheries by a variety of methods and gear. Commercial fishers use seine and gill nets or lures drawn along behind the boat (trolling). Recreational fishers use rod and line; Aboriginal fishers use various means including dip nets, gillnets and traps. Exhibit 20.1, Glossary, defines these and other terms used in this chapter.

**20.9** Five species of salmon under federal management are taken in the fisheries — sockeye, pink, chum, chinook and coho. They have similar life histories in that all use both freshwater and marine habitats and all die after spawning. Each species comprises a number of distinct populations or stocks, which are spread throughout the streams, rivers and lakes of British Columbia. These stocks have different spawning areas and spawn at different times; the juvenile salmon that result use different feeding and rearing areas.

**20.10** Such differences are inherited and have produced a wide diversity of stocks, each adapted to local conditions. This genetic diversity provides a "safety net," which is an important defence for salmon against the impacts of natural and man made changes to their environment. While the strengths of individual stocks will vary over time according to the nature and location of such impacts, their

**Gear Types in the Commercial Fishery**



*Troll*

*Gillnet*

*Seine*

All photos courtesy of Fisheries and Oceans

diversity enhances the ability of the species to respond to change and ultimately to survive. The conservation of diversity is an objective of the *United Nations Convention on Biodiversity* (1992), to be implemented through the *Canadian Biodiversity Strategy* (1995).

**20.11** The focus on biodiversity has occurred at a time when salmon fisheries in British Columbia are in serious trouble. Natural factors (such as the effects of global warming on marine and freshwater temperatures, and fluctuating ocean productivity); human factors (such as

Exhibit 20.1

Glossary

**Abundance.** Number of fish in a stock or fishery.

**Allocation.** The number of fish assigned or allotted to a particular group or individual.

**Assessment.** Evaluation of the productivity of a stock as a basis for deciding how many salmon should spawn and what harvest rates should be.

**Biodiversity (biological diversity).** The variability among living organisms, including the terrestrial and marine ecosystems and the ecological complexes of which they are part. This includes diversity within species, among species and of ecosystems. See genetic diversity.

**Capacity (harvest).** Related to the discussion of overcapacity. The Department defines "harvesting capacity" broadly to include the number of vessels in the fleet, the mobility of vessels, fishing technology, the quantity and type of gear used, and the skill of individual vessel operators.

**Closure.** Official end to a period of legal fishing.

**Co-management.** Sharing of management responsibilities among two or more agencies or parties.

**Conservation.** The management of salmon stocks to ensure that adequate numbers of salmon spawn each year, that spawning is successful, and that genetic diversity is maintained.

**Conservation unit.** A group of one or more local populations that share a common genetic lineage and that can be managed effectively as a unit by virtue of their common productivity and vulnerability to existing fisheries. Similar to the evolutionarily significant units (ESUs) used for the U.S. *Endangered Species Act*. Distinct population segments; a geographic area containing genetically related or similar groups.

**Escapement.** Number of mature salmon that pass through (or escape) the fisheries and return to their rivers of origin to spawn.

**Genetic diversity of salmon.** The separation of individual stocks of a salmon species based on inherited characteristics. This results, for example, in adults using different locations and times for spawning. See biodiversity.

**Gillnet.** A type of commercial fishing gear — a net set upright in the water to catch fish by entangling their gills in its mesh.

**Habitat.** Area in which an organism would naturally be found; the place that is natural for the life and growth of an organism.

**Landing.** Salmon caught in the commercial fishery that are delivered to fish processors.

**Observer.** Enforcement staff placed on board fishing vessels to monitor by-catch and use of selective fishing techniques.

**Overfishing.** Excessive fishing; fishing to depletion.

**Pacific Scientific Advice Review Committee (PSARC).** The Committee provides internal and external clients with scientific information that is reliable, relevant, timely and comprehensive. It advises the Resource Management Executive Committee chaired by the Director General and other bodies (like the newly formed Pacific Fisheries Resource Conservation Council) on stock and habitat status and potential biological consequences of fisheries management actions and natural events.

**Precautionary approach.** See Exhibit 20.5.

**Risk-averse management.** Management system weighted to conservation of a stock.

**Seine.** A type of commercial fishing gear — a large fishing net with floats along the top edge and weights along the bottom.

**Selective fishery.** Conservation-oriented management approach that allows for the harvest of surplus target species or stocks while aiming to minimize or avoid the harvest of species or stocks of conservation concern.

**Stock.** Fish returning to a general geographical area for spawning. Part of a fish population whose use is under consideration.

**Sustainable development.** Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**Sustainable use.** Management aimed at passing on a robust, healthy and abundant salmon resource for the enjoyment of future generations.

**Test fishing.** Fishing activity designed to provide data from which an estimate of run size can be generated.

**Troll.** A type of commercial fishing gear — a line trailed behind a moving boat.

overfishing and loss or deterioration of habitat); and economic factors (such as commercial fleet overcapacity and competition in the marketplace from a growing salmon-farming industry), are contributing to a decline in fishing opportunities, success rates, and value of the catch. The Department's challenge is to conserve existing stocks and rebuild those that are at risk, while maintaining viable fisheries.

**Focus of the audit**

**20.12** This is the second of three audits of Pacific salmon management. The first, reported in 1997, examined the Department's management of the resource base, concentrating on the conservation of salmon habitat. The third audit will examine the Department's role in the salmon-farming industry and the industry's impact on the conservation, production and management of wild salmon.

**20.13** The objective of the current audit was to determine if the Pacific salmon fisheries are being managed to ensure the conservation of the resource base and the sustainability of the fisheries. The audit reviewed existing problems and actions taken by the Department to respond to the new management challenge in three major areas: policy development and planning, fisheries and information management and government-stakeholder consultations. At the request of the Public Accounts Committee, we also incorporated into the audit a follow-up of the Department's response to the recommendations contained in our 1997 chapter, Fisheries and Oceans – Pacific Salmon: Sustainability of the Resource Base.

**20.14** Further details on the audit objective and criteria are found at the end of the chapter in the section **About the Audit**.

## Observations and Recommendations

### The Troubled Pacific Salmon Fishery

**Catches have declined**

**20.15** Statistics show that the commercial catch has dropped dramatically and the recreational catch is declining; however, the Aboriginal catch appears to be relatively stable (see Exhibit 20.2). There has been a rapid drop in the value of commercial catches since 1995 (see Exhibit 20.3).

**The resource base is being eroded**

**20.16** The fisheries draw on a diversified resource base of over 8,000 individual stocks of sockeye, pink, chum, coho and chinook salmon. A 1996 review of Fisheries and Oceans data, published by the American Fisheries Society, found that sufficient information was available to assess the status of only 60 percent of these stocks; the status of the remaining 40 percent was undocumented. Of the stocks assessed, over 15 percent were in some degree of danger. Coho stocks were the most affected overall, with 20 percent at risk.

**20.17** In spite of the Department's efforts, the fish habitat loss we reported in 1997 is still occurring. This contributes to the continuing decline of many salmon stocks.

**20.18** A new factor has recently come to the attention of Fisheries and Oceans scientists — apparent changes in ocean productivity, which have resulted in unforeseen declines in the numbers of salmon returning to spawn. This has made it necessary to restrict or close fisheries to conserve stocks. The most recent closures occurred in August of this year in the Fraser River, when the regional office's pre-season estimate of sockeye expected to return had to be adjusted from 8.2 million to 3 million.

**The Department's challenge is to conserve existing salmon stocks.**

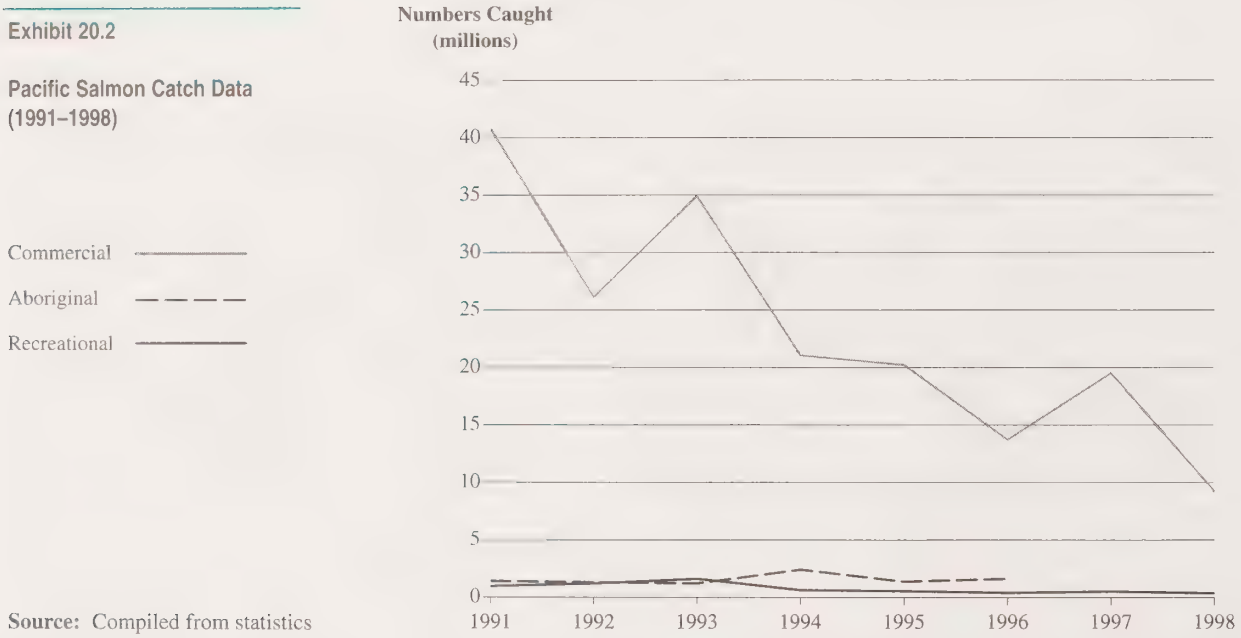
**Information is unavailable for 40 percent of salmon stocks.**

**Habitat loss is still occurring.**

**20.19** The availability of salmon to the fisheries has been affected by the ongoing dispute between Canada and the U.S. Pacific Coast states, especially Alaska and Washington, over their respective shares of salmon originating in British Columbia streams. Although Canada and the U.S. signed the Pacific Salmon Treaty in 1985 to deal with conservation and equity issues, from 1992 until recently they disagreed on annual fishing arrangements. In 1992, both countries began to fish coho heavily. Some progress toward resolving the dispute was made in 1998 when arrangements were negotiated with the northern U.S. states to share catches and

**Exhibit 20.2**

**Pacific Salmon Catch Data (1991–1998)**




**Source:** Compiled from statistics provided by Fisheries and Oceans and Edwin Blewitt and Associates

Note: Commercial, recreational and Aboriginal catch data after 1994 are preliminary.

**Exhibit 20.3**

**Pacific Region Commercial Salmon Catch Values (1991–1998)**




**Source:** Fisheries and Oceans

Note: Statistics for 1996 to 1998 are preliminary

exchange information on salmon stocks. Finally, in June 1999, a new agreement on conservation and equity issues under the Treaty was announced. The agreement provides for improved conservation and scientific co-operation. Bilaterally agreed fishing arrangements are now to be based on abundance instead of on numerical limits. The future impact of these arrangements on Canada's fisheries has yet to be seen.

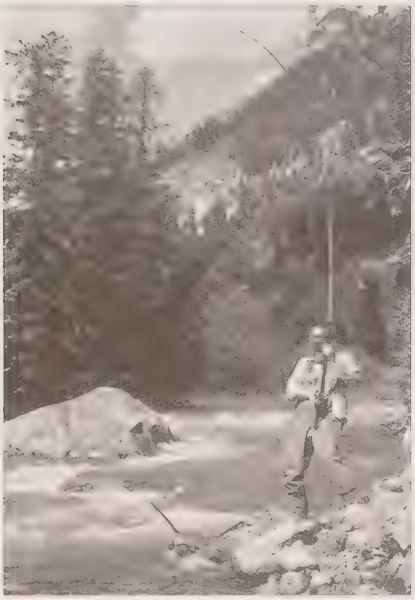
**20.20** Coho stocks declined dramatically in the 1990s as a result of overfishing, habitat loss and other factors. Stringent measures have become necessary to conserve these stocks for the long-term sustainability of the fisheries. The coho "story" is a good illustration of how the management crisis in which the Department finds itself developed (see Appendix A).

## Sustainability Will Depend on Sound Planning

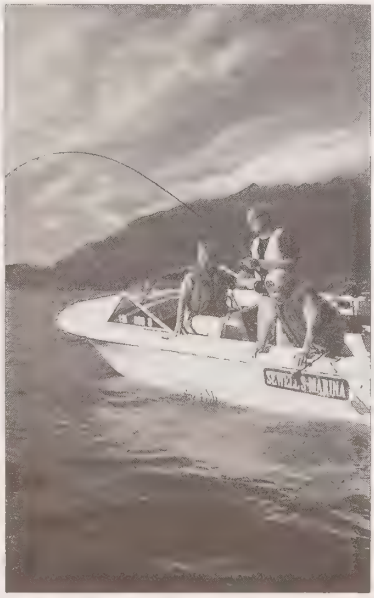
### The Department's planning record at the national level is poor

**20.21** In the absence of a strategic plan, the Department has been struggling over the last decade to deal with threats to

**The Department's strategic planning record is poor.**



*Freshwater recreational fishery*



*Ocean recreational fishery*

**Examples of Recreational and Aboriginal Fisheries**

All photos courtesy of Fisheries and Oceans



*Aboriginal fishery – dip net*



*Aboriginal fishery – beach seine*

biodiversity and declines in the resource base. Its record of strategic planning has been poor, as indicated in our reports and its own internal evaluations. The Department did not, until this year, have a national strategic planning framework in place that would allow it to respond in a coherent way to internal and external challenges.

**20.22** In October 1998, the Department finalized a departmental Business Plan for the period 1999–2001. The Business Plan provides a frank discussion of the challenges facing the Department, but lacks specific targets to be met in this period. For instance, the Department has not set priorities and targets for protecting the various salmon stocks.

The regional office has developed a strategic framework for salmon management.

**20.23** Fisheries and Oceans has now re-initiated strategic planning at the national level and has completed the first two stages of a department-wide strategic planning process. It has identified external and internal factors that are likely to affect its operations over the next two to five years and has developed an overview of the long-term strategic issues it faces. An integrated departmental strategic plan is being developed, with fall 1999 the target date for its completion.

**20.24** Fisheries and Oceans is spearheading a government-wide strategy for the protection of marine areas — the *Oceans Strategy* — which will integrate all ocean-related programs including fish management, science, enforcement, and habitat protection. This will add to the complexity of its strategic planning activities.

**20.25** The Department has also begun to develop strategic plans at the national level for each of the three operational sectors involved in salmon management. The plan for the Fisheries Management Sector has been stalled, however, while an overlapping of responsibilities with the newly formed Oceans Sector is sorted out. While no strategic plan has yet been completed for the Science Sector, some areas have been addressed — for example, data management.

**Implementing a new management regime**

**20.26** The Department's lack of follow-through on its national and sector planning processes forced its regional office to move forward to address urgent issues in the area of Pacific salmon management. The regional office developed its own strategic framework in the spring of 1998 — *New Directions for Fisheries & Oceans in the Pacific: A Departmental Strategy for 1998–2001* — in part to direct the Department's focus away from crisis management. As well as contributing to implementing the *Oceans Act*, the strategic framework focusses on conservation and sustainable use of the resource, on changes in decision making (participation, involvement and co-operative management), and on communications. The framework highlights the need for an integrated policy to direct the Department's actions. The regional office has since worked on delegating responsibility for activity areas under the strategic framework, and has set timelines for making progress in these areas.

**20.27** The strategic framework is being implemented, in part, through a new departmental policy announced in October 1998 — *A New Direction for Canada's Pacific Salmon Fisheries* (New Direction policy). The policy reconfirms the Department's commitment to sustainability and biodiversity, and introduces new elements into the management regime (see Exhibit 20.4). It is important to note that it relies heavily on a sound science base to drive decision making.

**20.28** The New Direction policy builds on work begun earlier on coho salmon conservation, fleet reduction and restructuring, selective fishing, habitat conservation and protection, and economic adjustment. Many of the

Department's requirements for sustainable fisheries as stated in the policy have been validated by experts in both the public and private sectors (see Appendix B).

**20.29** The New Direction policy sets in motion significant changes in the way the Department will do business in the future: it identifies three objectives for salmon fisheries management — conservation, sustainable use and improved decision-making — together with principles to guide the policy's implementation.

**20.30** The New Direction policy identifies clear goals and guidelines for developing operational policies and thereby provides a framework for measuring the Department's future performance in:

- protecting genetic diversity of stocks;
- meeting the scientific and operational requirements of the precautionary approach (explained in Exhibit 20.5);
- conserving the productive capacity of habitat;
- applying selective fishing techniques to protect weaker stocks; and
- involving stakeholders and the provincial government, in decision making, while moving toward the ultimate objective of fisheries co-management through the use of regional management boards.

**20.31** The Department has moved forward, releasing discussion papers on allocation and selective fishing and asking the public, governments and stakeholders to comment on them through a consultative process. Discussion papers on salmon management and improved decision making are being prepared for release before the end of the year.

**20.32** The regional office has completed an Integrated Regional Business Plan for 1999–2000 — the first major integrated planning effort under the strategic framework and a response to the New Direction policy. The regional office has informed us that there were extensive consultations between national and regional headquarters during the development of this business plan. It remains unclear, however, how the Department's New Direction policy, together with the strategic framework and business plan of the regional office, will be integrated with or affected by its national strategic plan and the *Oceans Strategy*.

**The New Direction policy provides an accountability framework for assessing departmental progress.**

**20.33** The regional strategic framework creates a made-in-British Columbia solution to Pacific regional problems in the context of national priorities. It recognizes that the regional office must address problems of internal integration — including a lack of integrated program delivery at the local level — and develop

**Operational policies will be developed in consultation with stakeholders.**

Exhibit 20.4

Elements of *A New Direction for Canada's Pacific Salmon Fisheries*

| | Old Principles Restated | New Principles Added |
|---|---|---|
| **Conservation** | • More emphasis on genetic diversity<br>• Net gain in productive capacity of habitat | • Precautionary approach<br>• Ecological approach |
| **Sustainable Use** | • Priority allocation to First Nations | • No trade offs<br>• Selective fishing<br>• Recreational fishery's priority for coho and chinook<br>• A diversified and viable commercial fishery |
| **Improved Decision Making** | • Provision of information to public<br>• Improved stakeholder consultation process/ structure | • Shared accountability with stakeholders<br>• Input to decision making<br>• Proposed regional/watershed management boards |

**Source:** Fisheries and Oceans. *A New Direction for Canada's Pacific Salmon Fisheries*. October 1998.

plans for organizational changes to address them.

**20.34** Internal co-ordination problems have impeded policy development and planning. The Department recognizes that there has been a lack of policy co-ordination between regional and national headquarters because of differing priorities and that this poses a threat to the effectiveness of its salmon management policies. The downstream effects are problems in integrating internal planning, communicating a clear and consistent message, evaluating results, and building evaluations into the planning cycle. The Department appears to be making progress in integrating national and regional policies.

**Future success in salmon management will depend on a sound science base.**

## The New Management Challenge

### Biodiversity-based conservation

**20.35** Regional managers developed fisheries management regimes in the past that focussed on the largest or most productive stocks in the Fraser and Skeena River systems. Now the regional office has begun to widen its management focus to include smaller stocks in order to protect biodiversity.

**20.36** Given the need to satisfy conservation requirements while optimizing fishing opportunities, a better understanding of the genetic diversity of stocks is essential. The focus on biodiversity and the example of the coho crisis have served to illustrate the shortcomings of current management systems, procedures and practices. The success of the new salmon management regime under the New Direction policy will depend largely on the scope and depth of the Department's science base.

**20.37** The regional office has indicated that to protect genetic diversity it will manage salmon on the basis of conservation units — groupings of stocks with related genetic characteristics — similar to those adopted by the U.S. It has done some work on major stocks and has developed proposed conservation units for coho, but much remains to be done before the stocks of all five salmon species are classified in this way. Fisheries management plans will need to recognize these conservation units and ensure their continued integrity.

**20.38 To protect the genetic diversity of salmon stocks, Fisheries and Oceans should move quickly to determine conservation units for all five species.**

***Department's response:*** *Fisheries and Oceans agrees with the need to continue efforts to determine conservation units for Pacific salmon. Work on coho salmon stocks is most advanced at this point, reflecting immediate conservation concerns. Initial plans for conservation units for all species will be completed in priority sequence, as quickly as resources permit, then continually upgraded as new information becomes available.*

**20.39** To evaluate the status of conservation units, managers and stakeholders will need comprehensive, integrated and understandable reports on the status of both stocks and habitat. The reports published by the U.S. on threatened salmon stocks in the northern states are good examples. Alternatively, the regional office could pattern its status reports on the format developed by the Committee on the Status of Endangered

Exhibit 20.5

**Precautionary Approach to the Management of Fisheries**

- Protect living marine resources and preserve the marine environment.
- Be more cautious when information is uncertain.
- Improve decision making by sharing best scientific information and adopting ways to deal with risk and uncertainty.
- Adopt stock specific reference points for conservation (limits of exploitation) and for fisheries (targeted catch levels).
- Take into account uncertainties (all types), as well as impact on non-target species.

**Source:** Chapter 14 of the 1997 Report of the Auditor General – Fisheries and Oceans – Sustainable Fisheries Framework: Atlantic Groundfish

Wildlife in Canada (COSEWIC). Its reports would then likely meet the requirements under proposed endangered species legislation for registering stocks at risk, and would form the basis of detailed plans for recovering those stocks.

**20.40 The Department should produce comprehensive, integrated status reports on stocks and habitats based on the new conservation units for each salmon species. The reports should be updated annually and used in developing, implementing and evaluating fisheries management plans.**

***Department's response:*** *There is a need to improve the integration of stock and habitat assessment information to help guide fisheries management decisions. This is consistent with the ecological approach to fisheries management to which the Department is committed, and will be implemented in a staged manner. The Department agrees that integrated reports should be produced on a regular basis, with more frequent reviews in special circumstances, but it questions whether annually is the appropriate time frame for regular reporting.*

**Basic information on stocks and habitats is incomplete**

**20.41** Data on escapement and catches are vital information for assessing the status of stocks. To date, however, the regional office's data collection has been weighted toward the larger stocks originating in the major salmon production areas (for example, Skeena coho, Fraser sockeye and pink salmon).

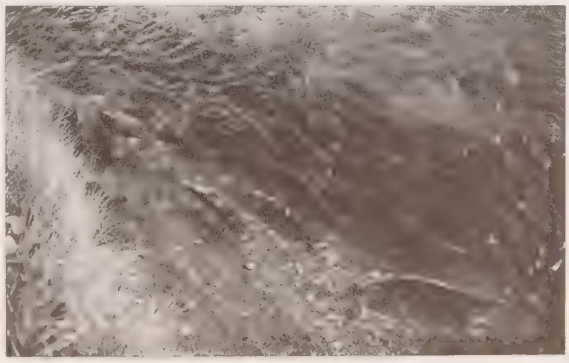
**20.42** A 1996 report by the American Fisheries Society indicated that a significant lack of information exists on the status of Pacific salmon stocks. The report reviewed the status of over 8,000 sockeye, pink, chum, coho and chinook stocks in British Columbia, based on available escapement data (that is, information on the number of salmon that arrived on the spawning grounds). There was not enough information to assess the status of 40 percent of those stocks. A continuous record of stock assessment data is available on larger stocks traditionally used in commercial fisheries and on many stocks in the Fraser and Skeena River systems. However, basic information on coho is limited to approximately 50 percent of known stocks, and almost no information is available on the smaller stocks of all species.

Stocks will be managed within conservation units.

**20.43** The regional office's Salmon Escapement Database is a primary source of information to assess the strength of a stock. Along with reliable or scientifically supported observations, it contains a mixture of unqualified estimates of escapement that require expert interpretation. Data therefore cannot be accessed directly by the user, who must go through the Database manager. The inaccessibility and incompleteness of the data limit their usefulness to fisheries managers, and preclude easy access by stakeholders. This database has remained essentially unchanged for 20 years, but the regional office now has plans to develop a new escapement database that will classify data by level of quality and provide Internet access.

Good escapement and catch data are vital for conservation management.

**20.44** There are data on the productivity of freshwater habitats but not enough on those used by individual stocks to provide a comprehensive picture of their health. Reporting on stock and habitat status is neither comprehensive nor



*Spawning salmon*

Photo courtesy of Fisheries and Oceans

integrated, which poses problems for the regional office in protecting the genetic diversity of salmon stocks.

**Recent developments in Canada–B.C. relations are encouraging.**

**20.45** In addition, there is a lack of historical information on relationships among habitat status, habitat change and fish production. This prevents experts from being able to define the productive capacity of habitats, and to protect critical habitats.

**20.46** Despite the Department's efforts, the loss of fish habitat is contributing to the continuing decline of many salmon stocks. The *Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues* (1997) has generated collaborative efforts at the working level in several areas, including habitat protection, but progress has been limited. Efforts by the two governments to produce standardized information on habitat inventory are continuing, as we noted in 1997. Still, significant improvements in the habitat information database likely cannot be expected for some time. A positive development in this area was the May 1999 signing of the *Sub-agreement to the Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues Respecting Fisheries Information Co-ordination and Sharing.*

**Improvements to databases are being initiated.**

**20.47** In following up on our previous recommendations, we noted that the Department has made progress in habitat protection. In 1998 the Department and British Columbia signed an agreement respecting work on coastal and marine areas. However, it is still in the early stages of such initiatives as regional and community-based planning.

**20.48** The regional office has since begun to develop a process of assessing the extent of habitat loss but has not yet completed the framework for carrying out the review. In the meantime, it has announced the hiring of 15 Habitat Auxiliary staff to help in monitoring habitat.

**20.49** Improvements are needed in the collection of catch data. Commercial vessels make approximately 70,000 landings annually, and fish can be sold fresh to buyers up and down the coast. Large processing companies supply generally reliable sales-slip data electronically. However, it is difficult to obtain similar data on salmon sold directly to the public by fishers or small operators.

**20.50** Fishers recognize the Department's problem. They believe that independent, accurate catch monitoring and observer programs are critical to any future fishery under the management regime established by the New Direction policy.

**20.51** It is an offence under the *Fisheries Act* to fail to provide catch data or to provide inaccurate catch data. In areas that are not frequented by fisheries officers, fishers are required to report their landings to the nearest departmental office by phone. However, the regional office's 1998 report on phone-ins by commercial fishers revealed low compliance for seines (49 percent) and gillnets (43 percent).

**20.52** An onboard observer program to document numbers of coho captured and released was initiated in the 1998 fishing season. According to the regional office's data, however, in some areas only 2 percent to 13 percent of the total boat-days for sockeye and chum were monitored. Further, a lack of coverage by observers of packer vessels collecting fish from commercial seine fishing boats

*Commercial fishing: seine boats*



Photo courtesy of Fisheries and Oceans

created problems in getting accurate counts of coho salmon taken in the fishery. Seiners account for as much as 50 percent of the coho taken accidentally while fishing for other species.

**20.53** A recent Supreme Court ruling upheld the requirement that the recreational fishing industry report catch data, and this should improve compliance in the future. In 1998 the regional office observed a mixture of good and bad reporting of catches by sport lodges and charter operations. Furthermore, it believed that in some cases recreational fishers underreported their encounters of coho by about half the actual number. We found that the regional office survey coverage of the recreational fishing effort was limited overall, which raises questions about the accuracy of the data.

**20.54** Managing for biodiversity will create a new set of problems in data collection. More precise catch data will be needed in 2000 to manage fishing opportunities in special management zones, where controlled fishing can occur. Under these conditions, in-season sampling of numbers of returning salmon (test fishing) is important. In 1998, management of the commercial fishery relied heavily on test fishing results.

**20.55** The Department has acknowledged that further improvements in its catch, escapement and habitat databases are needed. The Data Management section of the Department's Science Strategic Plan 2005 initiative called data an "extremely valuable and irreplaceable resource", and stated that "data accessibility and integration have become serious concerns." The Plan raised such needs as data centres for regional directors, adequate resources for data management, and new technology for distributing data internally and externally.

**20.56 The Department should assess its information requirements in the areas of data collection, analysis, and management, in order to meet its long-term needs and identify priorities under the New Direction policy.**

***Department's response:*** *Fisheries and Oceans concurs with this recommendation, and is preparing assessment frameworks for all species of Pacific salmon. These frameworks will define the information required to ensure conservation and effective management, and will be used to determine priorities for allocation of resources under the New Direction policy. The Auditor General cites some progress under the* Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues. *This work has already resulted in significant improvements in salmon information management, and work to achieve further improvements will continue.*

Catch reporting remains a problem.

Managing for genetic diversity will require better data.

**The Department is not making best use of the Aboriginal Fisheries Strategy (AFS)**

**20.57** The AFS has assumed a major role in data collection. The Department relies on Aboriginal communities to collect escapement and other data. In fact, figures obtained from the regional office indicated that 30 percent of new data being input to the Salmon Escapement Database come from this source. Through the AFS, moreover, First Nations are developing a pool of expertise that will assist the Department in managing salmon resources as land claims settlements are negotiated.

**20.58** The AFS contributes to knowledge of salmon stocks through a variety of fisheries management activities, including catch monitoring and stock and habitat assessment. Aboriginal conservation officers (fishery guardians), who are mainly involved in enforcement activities, receive formal training in data collection. However, usually only on-the-job training is provided to technicians and stream-walkers, who are

The Aboriginal Fisheries Strategy plays a major role in data collection.

largely responsible for stock and habitat assessment.

**20.59** The Department acknowledges the value of involving Aboriginal peoples in monitoring, research, enhancement and habitat conservation, but it has concerns about the quality of data provided under some agreements. We found that it has no clear system for collecting information from First Nations and forwarding it to the Science Branch for compilation. It also lacks uniform standards to ensure that information from different sources can be compared. This has resulted in significant gaps in the data, and problems with their reliability and timeliness.

Data quality could be improved.

**20.60** At the time of our audit the Science Branch had received catch data for 1997 from fewer than 15 percent of the bands that were required to collect it. In 1998, the regional office reported that some First Nations on the north coast submitted either no catch data or data that were unusable. The regional office told us that some bands refuse to provide catch reports on salmon because of complications in treaty negotiations. We also learned that the involvement of Fisheries Officers in obtaining data from bands and submitting them to the Science Branch is highly inconsistent across districts. The regional office is now working to update its reporting systems and to better delineate the responsibilities of everyone involved in the process.

The regional office's process for evaluating scientific advice is open and transparent.

*Spawning salmon*

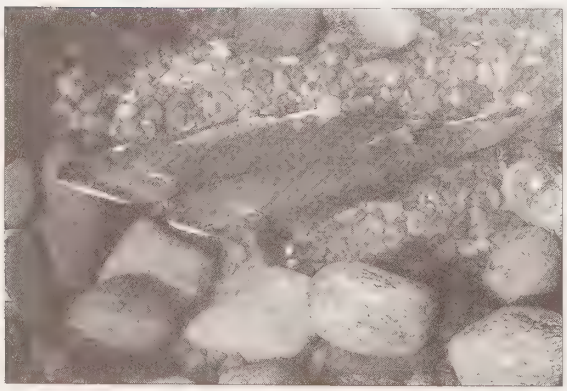


Photo courtesy of Fisheries and Oceans

**20.61 The Department should evaluate the comprehensiveness and quality of data collected under the Aboriginal Fisheries Strategy (AFS) and the adequacy of the standards and procedures that guide data collection, compilation and reporting, with a view to improving and expanding the role of the AFS in this area.**

***Department's response:*** *The role of First Nations, through the Aboriginal Fisheries Strategy, in data collection and reporting is evolving. First Nations are becoming more proficient at collection and reporting of data. The Department acknowledges the need to more rigorously define data quality standards and methods, and to establish reporting procedures. Fisheries management staff are working with the Science, Stock Assessment and Habitat and Enhancement branches to integrate the process of collecting and reporting the data.*

### Improved process for reviewing scientific information and advice

**20.62** Fisheries managers receive advice from the regional Pacific Stock Assessment Review Committee — recently renamed the Pacific Scientific Advice Review Committee (PSARC). This committee is the regional body responsible for the review and evaluation of all scientific information on salmon stocks and their habitats. This information is critical to the development of sustainable fishing plans.

**20.63** However, the PSARC does not deal specifically with traditional knowledge — the knowledge acquired over time by participants in the Aboriginal, commercial and recreational fisheries. Yet the Department does recognize this as an important consideration in the development of fishing plans to ensure that all relevant information has been taken into account.

**20.64** Scientific information undergoes peer review to ensure its reliability, and advice generated by this review is

forwarded uncensored to senior management. PSARC reports are made available to the public. The process is both open and transparent, and stakeholders can participate in it.

**20.65** The PSARC was restructured in 1999, when a Habitat Sub-Committee was added. PSARC is now required to provide reports on stock status, although only on the major stocks, and in the future it will also issue reports on habitat status. However, there is no requirement to integrate the two reporting responsibilities on a stock-by-stock basis. PSARC's stock status reports are public documents that summarize, in lay terms, scientific and technical information on *major* commercially harvested species. In our opinion, more comprehensive reports are needed on individual stocks, or on groups of stocks within the proposed conservation units, to facilitate salmon fisheries management under the New Direction policy.

**20.66 The Department should ensure that the responsibilities of the Pacific Scientific Advice Review Committee are in line with the needs outlined in *A New Direction for Canada's Pacific Salmon Fisheries*, by:**

- **requiring the Committee to produce comprehensive integrated reports on stock and habitat status, taking into account traditional knowledge; and**
- **expanding the Committee's area of reporting to cover individual salmon stocks or groups of stocks under proposed conservation units.**

***Department's response:*** *Fisheries and Oceans agrees with this recommendation. The Department will be moving to ensure that PSARC salmon stock status reports incorporate habitat status information. The Committee is already responsible for incorporation of traditional knowledge in its assessments, and for reporting on the status of individual stocks or groups of stocks. Stock status reports will be aligned with conservation units, once defined.*

### Toward integrated fisheries management planning

**20.67** Management strategies and policies, together with the information on stock assessments, are translated into practical actions through annual fishing plans. The regional office's present fishing plan process is based on a salmon management model that has remained essentially unchanged for many years. There are ingrained problems in the existing system. Over 10 years ago, in our 1986 Report, we noted that the regional office's work plan did not co-ordinate science, habitat and enforcement activities to ensure that they were consistent with the regional office's objectives. In 1998, the Department's Review Directorate identified continuing problems among departmental sectors in co-ordinating and following the fisheries management planning process in all regions. Post-season evaluations of fishing plans have not been documented. Currently, the incorporation of any lessons learned into the next year's fishing plans depends on the continuity of the people involved.

**Better reporting on the status of stocks and habitat is needed.**

### The importance of Integrated Fisheries Management Plans

**20.68** The Department is committed to moving from the existing fishing plan process to a long-term planning process for salmon management. Integrated Fisheries Management Plans (IFMPs) were not implemented for salmon in 1998, despite the Department's intentions to do so. However, in its Integrated Business Plan for 1999–2000 the regional office has indicated that one salmon IFMP will be developed in 1999. The Department has used IFMPs in other fisheries since 1996, but has had difficulty using them in salmon fisheries. The IFMP process integrates the activities and specialized knowledge of every departmental sector involved, and uses broader consultation with stakeholders beyond those with direct

**Integrated Fisheries Management Plans are essential to success.**

The Department has adopted the precautionary approach to salmon management.

fishing interests. The goal of the process is to produce fishing plans that are more comprehensive and longer-term than the annual plans currently in use. In our opinion, IFMPs are essential to the successful implementation of the new management regime.

**20.69** IFMPs will incorporate the precautionary approach, which is an internationally accepted approach to managing declining fisheries. It provides direction to managers who have limited scientific information, while recognizing the need to expand the knowledge base (see Exhibit 20.5). The Department has not yet decided how it will apply this approach to managing the salmon fisheries. A critical element of IFMPs is the development of stock reference points that indicate acceptable catch levels (targets) and levels beyond which no fishing will occur (conservation limits). Targets will be influenced and held in check by economic considerations, but the conservation limits will have to be rigidly enforced if biodiversity is to be protected. While the available information on some stocks is sufficient to set such limits, there is little or no information on the majority — especially smaller stocks. Under the precautionary approach, closures may therefore be necessary to protect individual stocks while their status is determined.

**20.70** In 1998, the Department announced its plan for the recovery of coho stocks. However, the IFMP process at present does not require comprehensive recovery plans for threatened stocks, although they will likely be mandatory under proposed endangered species legislation to meet the requirements of the Canadian Biodiversity Strategy.

At present, recovery plans for threatened stocks are not mandatory.

**20.71 The Department should ensure that Integrated Fisheries Management Plans include formal recovery plans for stocks at risk.**

***Department's response:*** *The Department agrees in principle with the recommendation to include formal recovery plans for stocks at risk in Integrated Fisheries Management Plans. We are developing a coho plan for recovery of upper Skeena and Thompson coho. Fishery restrictions were introduced starting in 1998 that curtail harvest by all sectors, involving fishery closures and adjustments to the area, timing and gear specifications of permitted fisheries. Salmon habitat improvement initiatives have also been authorized and projects in support of selective fishing practices have been conducted. The Department will develop recovery plans consistent with these specifications when available, and include them in IFMPs.*

**20.72 The Department should facilitate the application of the precautionary approach to salmon fisheries management by establishing catch levels and conservation limits for individual stocks or groups of stocks.**

***Department's response:*** *This recommendation is consistent with the Wild Salmon Policy now under development by the Department. The Policy, which is based on the precautionary approach, will establish escapement levels and target harvest rates that will ensure long-term sustainability. This work goes hand-in-hand with the requirement to establish conservation units and will be a central feature of departmental science input to fisheries management.*

### The use of selective fishing methods

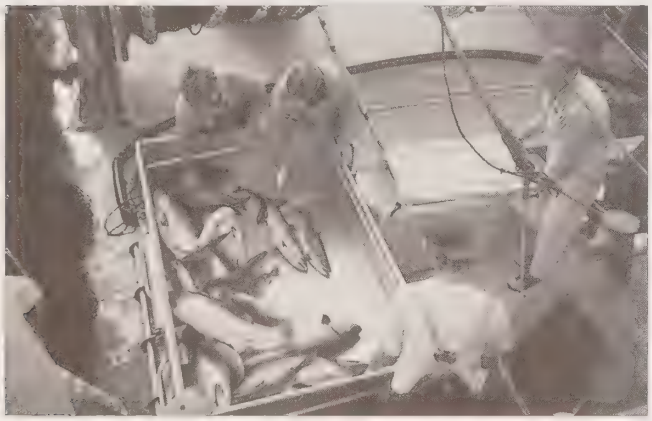
**20.73** Selective fishing methods will be an important element of the new Integrated Fisheries Management Plans. Salmon are often harvested in mixed-stock fisheries, where fish from different stocks and species intermingle. Selective fishing limits the harvesting of weaker stocks, while allowing the harvesting of stronger stocks by requiring non-targeted salmon to be released. Thus, conservation is promoted while fishing is allowed to continue. Selective fishing is recognized

internationally as a management tool to promote sustainable fisheries.

**20.74** The February 1999 *Selective Fisheries Multi-Stakeholder Workshop* report provided information on the results of selective fishing to date. The effectiveness of selective fishing in reducing the mortality rates of fish taken accidentally and then released has yet to be proved. For example, the one experiment that took place in the Alberni Inlet in September 1998 raised questions about the long-term survival of released salmon. Short-term mortalities were low, but departmental data on long-term mortality rates was inconclusive. The Pacific Scientific Advice Review Committee raised the concern in 1995 that selective fishing relies on uncertain and still unproved technologies. We are concerned that, to date, there is still no conclusive evidence that most of the released salmon survive to spawn.

**20.75** In 1998, based on short-term mortality rates, the regional office estimated coho mortalities at 93,000 in all fisheries. However, if significant numbers of released salmon are in fact dying before

**Selective Fishing Methods**



*On-deck sorting (seine)*



*Fish wheel (Aboriginal)*



*Catch and release (recreational)*



*Brailing (seine)*

All photos courtesy of Fisheries and Oceans

they reach the spawning grounds, this estimate would be too low, with severe consequences for the conservation of the species.

Data on long-term mortality rates of released salmon are inconclusive.

**20.76** In many British Columbia recreational fisheries, there is a lack of information on the effects of fishing gear and methods on short- and long-term mortality rates. There is also little information on the survival of coho that are hooked and then released. Without this information, it is difficult to assess the impact of recreational fisheries on the conservation of weak stocks. However, we acknowledge that the collection of data on long-term mortality in the fisheries may be both difficult and costly.

**20.77 The Department should assess the risks to conservation of allowing selective fishing in the commercial and recreational fisheries, given the lack of reliable information on long-term mortality rates of released salmon. It should then build adequate safeguards into fishing plans to protect stocks at risk.**

***Department's response:*** *The Department is continuing studies to improve understanding of the mortality of salmon released following capture in commercial, recreational and First Nations fisheries. The knowledge gained through these studies will be incorporated into future fisheries management plans. Current management plans take account of expected mortalities based on existing knowledge.*

### Reducing the size of the commercial salmon fleet

Fleet overcapacity has been a problem for more than a decade.

**20.78** Fleet overcapacity has had an impact on both the conservation and the economic sustainability of the commercial fishery. Fisheries and Oceans had been advised of overcapacity problems in the salmon fishery for over a decade before taking action under the Pacific Salmon Revitalization Strategy in 1996. The initiative introduced several strategies for decreasing harvesting capacity, such as reducing the size of the fleet through a voluntary vessel buy-back, and reducing the mobility of vessels and quantity of gear through changes in licensing for areas and gear. The Department aimed to reduce fleet capacity by 50 percent over the long term. However, it could not adequately measure the effects of this reduction on fish catches; instead, it measured the numbers of licences it retired or the number of vessels fishing in a given area. This meant that it could not evaluate the Strategy's contribution to conservation objectives or determine what further restructuring would be necessary to achieve them.

**20.79** The restructuring continued in 1998 under the Pacific Fisheries Adjustment and Restructuring (PFAR) Program. By the summer of 1999, two rounds of licence buy-backs had been conducted — one in the fall of 1998 and one in the spring of 1999. At least one more round of buy-backs was planned for the fall of 1999, when fishers would have more complete information about the Department's plans for the fishery of the future and its new management regime. The first two rounds of buy-backs offered compensation in line with what was offered in 1996, and almost the same number of licences were retired: 746 in fall 1998/spring 1999, compared with 797 in 1996 (see Exhibit 20.6). There are now 2,557 licences remaining in the salmon fleet that are eligible for buy-back.

**20.80** The Department has committed itself to reducing capacity in the seine, gillnet and troll fisheries, thus conserving stocks, reducing dependency on the resource, and increasing the economic viability of the industry. But it has not measured its progress toward the first two outcomes, and has therefore set no conservation-based targets for fleet reduction. However, it has set specific targets based on calculations of the licence reductions needed to create the conditions

for the commercial fishing industry to become economically viable.

**20.81** Changes in the fishery and in the Department's management approach have implications for the size of fleet that would be economically viable. The Department based its licence buy-back target on calculations that reflected its risk-averse management strategy. However, these calculations did not anticipate any significant changes in fish harvesting or management, such as the potential for widespread closures where salmon from weaker stocks cannot be sufficiently avoided or released unharmed through selective fishing.

**20.82** The Department's intention to transfer management costs to the commercial fishery depends on the fishery's economic viability. Fishers must first be earning enough income to support themselves and the activities that are required to manage the resource effectively. While the Department's economic target for the buy-back initiative under PFAR was reasonable given the status quo, the target is not in keeping with current management changes. However, the buy-back attempts to address this problem by encouraging fishers to expand their interests beyond salmon.

**20.83** As well as providing a more sustainable livelihood for those who remain in the fishery, the buy-back is meant to enhance the prospects for achieving salmon conservation objectives. But the Department remains unclear on the extent of reductions needed. Furthermore, it has not yet integrated the buy-back program with other fleet management programs, such as selective fishing. However, in spite of the problems that we have indicated, fleet reduction and restructuring are helping the Department to move toward a sustainable commercial fishery.

**20.84 The Department should specify a fleet reduction target and timetable that are consistent with its objectives of conservation, selective fishing and cost recovery, and work to complete fleet reduction according to this timetable.**

***Department's response:*** *The Department agrees with this recommendation. In 1996, a multi-year salmon fleet reduction target of 50 percent was established. This target will be reviewed taking into account various factors, in particular the requirement to fish selectively in order to meet conservation objectives, and harvest diversification opportunities.*

A significant reduction in the number of licences has been achieved.

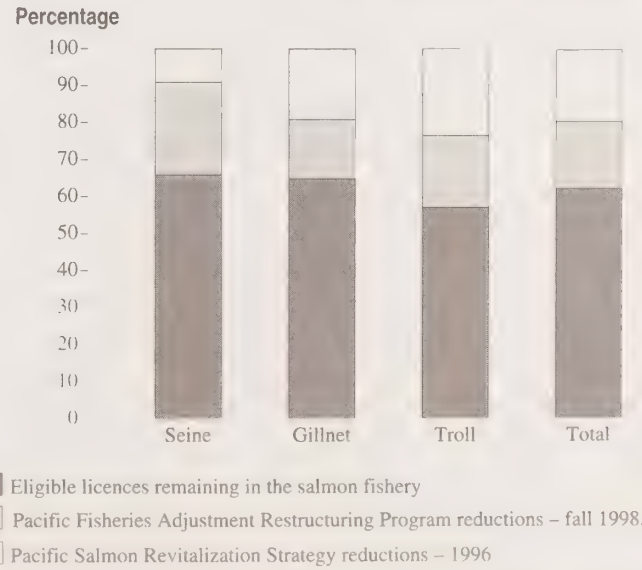
### Allocation issues persist

**20.85** The absence of an allocation policy has created problems in relations between the Department and fishers. Before 1990, the Department had no formal policy for the allocation of fish to various users. In that year the Supreme Court of Canada, in the Sparrow decision, affirmed the constitutional right of Aboriginals to fish for food, including fish consumed for social and ceremonial purposes. The Court held that the Department had to give such fisheries top

Allocation has been a perennial problem.

Exhibit 20.6

**Pacific Commercial Fleet Reduction Since 1996**




**Source:** Fisheries and Oceans

priority after implementing valid conservation measures. No action was taken to resolve the issue of allocations to the commercial and recreational fisheries until 1998, when the New Direction policy was announced.

**20.86** In conjunction with the policy, the Department released in December 1998 *An Allocation Framework for Pacific Salmon 1999–2005*, a discussion paper that proposes to formalize changes in the allocation process and to establish an independent allocation board. The board would advise the Minister of Fisheries and Oceans and assist him in implementing the allocation policy in an open and transparent way. This would likely remove a major source of friction between the Department and the stakeholders.

**20.87 The Department should act on its proposal to establish an independent allocation board as soon as possible.**

***Department's response:*** *The Department agrees and is developing an implementation plan for the establishment of an allocation board. The final draft of* An Allocation Policy for Pacific Salmon *will be released soon. It provides for the establishment of an allocation board and outlines the board's basic goals.*

Problems with stakeholders are not new.

## The Support and Participation of Stakeholders Are Essential

**20.88** The Department sees consultation as a first step toward a closer working relationship with its stakeholders, as documented in its *Framework and Guidelines for Implementing the Co-Management Approach.* The New Direction policy commits the Department to broadening and enhancing input to decision-making, through regional boards.

**20.89** The Panel Studying Partnering, appointed by the Minister of Fisheries and Oceans, highlighted issues surrounding current relationships with stakeholders. The Panel found that even though the Department was making strong commitments to partnering, in practice it was still taking a "business-as-usual, top-down approach to fisheries management". It concluded that the Department was "trying to deal with too many issues on the back of partnering" and pointed to the challenges of overworked staff, limitations in stakeholder capacity, and the time and energy involved in negotiating agreements. Because of the Department's poor record of transparency in its consultations, stakeholders are wary about the possibility that it will give preferential treatment to certain interests; they are also skeptical about the workability of partnerships in fisheries management.

### Consultation problems have not been addressed adequately

**20.90** Reports going back as far as 1982, when the Commission on Pacific Fisheries Policy issued *Turning the Tide, A New Policy for Canada's Pacific Fisheries*, have documented dissatisfaction with the Department's consultation process. In 1998, the process was still being criticized in reports such as the *West Coast Report* by the Standing Committee on Fisheries and Oceans.

**20.91** The regional office made promises throughout the 1990s to improve its consultations and its consultation process, but it has not yet done so. The regional office did take steps to strengthen its relationships with stakeholders in developing the 1998 salmon fishing plans, but problems remain. Although the regional office consults extensively on the development of fishing plans, the way it participates in the consultation process has been criticized: there is a perception that the Department has already decided on the fishing plans before consultations begin. While this criticism could be a reflection of flaws in the consultation process, it could also indicate disagreement with the outcome.

**20.92** The regional office acknowledges its ad hoc approach to consultations. It notes that consultation structures are not well integrated or well designed to deal with the full range of issues involved in managing the salmon fisheries. Shortcomings in its consultations on annual fishing plans and on such larger issues as restructuring and allocations have added to the Department's loss of credibility.

**20.93** Several studies of the Department's interactions with stakeholders and of stakeholder satisfaction with its consultation processes have noted the following widespread problems:

- exclusion of stakeholders from consultations;
- dissatisfaction with the transparency of the overall process;
- failures to notify stakeholders about consultations, and holding consultations too late to affect decision-making; and
- stakeholders' perceptions that their input is not reflected in decisions and subsequent actions.

**20.94** From a list of 82 advisory groups that the regional office provided, we contacted 41 groups by telephone to see if they were satisfied with current consultation methods. Only 6 of the groups (15 percent) said they were. We did not look at the regional office's consultations with Aboriginal advisory groups, with whom the Department has a legal obligation to consult.

**20.95** Although stakeholders continue to complain, the regional office has completed no evaluation of the consultation process. It has not developed a complete list of stakeholder contacts, and is not clear on whether various groups play an advisory or a consensus-building role. It is therefore not surprising that the process is not as effective as it could be. In fact, regional managers told us that they think they consult too much.

**20.96** We recognize that it is not always possible to reach agreement with stakeholders on issues that are contentious. Sometimes the Department may have to take action without consulting further. When it does, however, we would expect it to give stakeholders an opportunity to discuss how to minimize such situations in the future.

**20.97** If its relationship with stakeholders does not improve, the Department will find it difficult to move forward with partnership arrangements and co-management, as discussed in its *Framework and Guidelines for Implementing the Co-Management Approach* and its New Direction policy. Part of the Department's plan for partnering is to transfer some costs of fisheries management to users of the resource. For instance, it expects salmon harvesters to assume by 2001 the full costs of testing and experimenting with new selective fishing gear, and to eventually bear the costs of all catch monitoring and reporting.

**20.98** The Department has recognized the need for a fundamental review and revision of its present approach to public involvement in salmon fisheries management. As a first step, it plans to soon release a discussion paper on improved decision-making that will propose improvements to the consultation process. This will give it an opportunity to continue its efforts to regain public confidence. The improved decision making framework it proposes includes five elements — a Pacific Fisheries Policy Forum, an independent Pacific Fisheries Allocation, Licensing and Appeal Board, updated advisory processes for salmon management, ideas for the potential role of Area-Based Multi-Stakeholder Boards, and a Consultation Secretariat to support the decision-making process. It is an ambitious framework, proposing changes

**Shortcomings in the present consultation process have been documented.**

**We confirmed a high degree of stakeholder dissatisfaction.**

to stakeholder involvement in advisory roles and partnering arrangements.

**20.99 The Department should evaluate its consultation process, with the input of stakeholders, to identify where improvements are needed before it finalizes its improved decision-making policy.**

***Department's response:*** *Consistent with this recommendation, the Department is planning to obtain stakeholders' and public input on how to improve the consultative process before finalizing the improved decision making policy, which is being drafted.*

### Canada–British Columbia relations

Improved relations with the Province of British Columbia is essential.

**20.100** It is important for the Department to have a good working relationship with its major partner, the Province of British Columbia. Canada and the Province have overlapping responsibilities for the fisheries. Under the *Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues*, the two governments agreed to work together on Pacific salmon fishery issues, with the Province involved primarily in the area of habitat protection.

**20.101** In view of the provincial government's role in habitat protection and its interest in promoting economic and cultural well-being, its co-operation and support are crucial. The Agreement calls for them to form joint advisory and administrative bodies, yet each party has acted unilaterally to establish its own (the Department's Pacific Fisheries Resource Conservation Council and the Province's Fisheries Renewal B.C.). While there is co-operation at the working level, the two governments have not yet agreed on joint goals for fisheries management that incorporate both conservation and economic objectives. Problems with implementing the Canada–B.C. Agreement have made the management of the resource base more difficult. However, the recent *Agreement on Interjurisdictional Cooperation with Respect to Fisheries and Aquaculture* signals an improvement in Canada–British Columbia relations.

**20.102 The Department should intensify its efforts to develop common objectives and integrated strategies with the Province of British Columbia to conserve the resource base and promote sustainable fisheries.**

***Department's response:*** *The federal and B.C. governments have been working actively and jointly to implement the* Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues. *In the two and a half years since the agreement was signed, the two governments have fulfilled many of the requirements of the agreement. Additional work on co-ordinating our efforts in enforcement and habitat management and restoration are under way. Also, new areas for co-operation are constantly under consideration.*

### Identifying costs and setting priorities

**20.103** There is a gap between the Department's high-level policy commitments to sustainable development, biodiversity conservation and stakeholder partnerships under the New Direction policy and its ability to meet those commitments. The Department continues to make strong claims about what it is trying to accomplish. For example, it sees itself as working toward achieving "the highest possible standards of scientific excellence" and achieving "no net loss of habitat". Yet the Department has

*Spawning salmon*

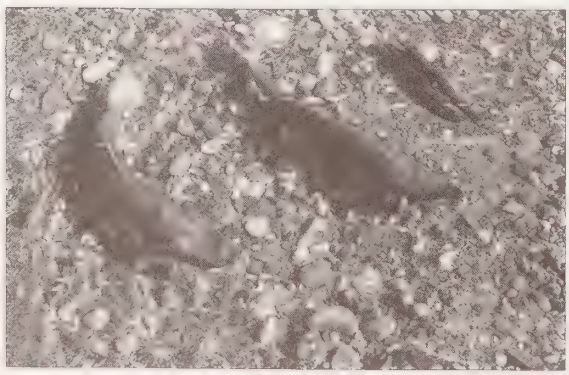


Photo courtesy of Fisheries and Oceans

recognized that these demands create workload pressures that it is ill-equipped to meet.

**20.104** The Department has not identified the incremental costs of the New Direction policy or set priorities for the spending of existing funds. Funding sources include the Pacific Fisheries Adjustment and Restructuring Program ($80 million to be spent from 1999–2000 to 2001–02 on selective fishing, diversification, habitat and adjustment assistance projects); the Aboriginal Fisheries Strategy (approximately $16 million annually); and the Canada–U.S. Treaty (a share of the $209 million available). The Department does not appear to have set priorities for the allocation of these funds to the several programs it has initiated for habitat conservation and protection and for adjustment assistance. Funds under the Canada–U.S. Treaty are to be administered jointly by both countries to invest in habitat, stock enhancement, science and salmon management. However, the identification of stocks at risk, which is urgently needed to set spending priorities, has not yet been completed.

**20.105** The regional office has not determined how it will cover funding shortages in key areas like scientific support. We have noted that a risk assessment has not been done in order to prioritize funds to meet the objectives of the New Direction policy, such as managing for biodiversity. The Department has identified potential sources of new funds, such as funding for the implementation of the proposed endangered species legislation, and is counting on obtaining them. However, it has not yet assessed how much money it must allocate to salmon under the New Direction policy, and how much will be required for the other species under its jurisdiction.

**20.106** The Department anticipates that management costs could be offset in the future by partnering with stakeholders from the commercial fishery, as indicated in its 1996 *Fisheries Management Partnering Policy Principles*. However, the regional office has trouble identifying costs that are directly attributable to the fishing industry and therefore potentially transferable. While it is still unable to determine costs by species, the regional office estimates that approximately $85 million of its total budget of $230 million in 1998–1999 was spent on salmon, including habitat, enhancement, science and fisheries management. The regional office's dilemma is that it is putting a significant amount of money into managing the Pacific salmon commercial fishery, for a declining economic return.

**The Department has not identified the new costs of doing business.**

**20.107** The Department recognizes that the Aboriginal Fisheries Strategy is assuming a greater role in fisheries management because of the land claims treaty process. Treaty settlements will provide money to First Nations to participate more fully in the management of their fisheries. Aboriginal participation in fisheries management will have an impact on the way the fishery is managed in the future. The evolving role of First Nations in fisheries management could thus be an important agent of change. However, we have not yet seen how the Department plans to co-ordinate fisheries management functions with treaty settlements under its goal of establishing regional management boards.

**20.108** The Province of British Columbia is potentially a large external source of funds for achieving habitat conservation goals held in common with the Department. The Province of British Columbia has created its own organization, Fisheries Renewal B.C., to invest public funds in the revitalization of the fishing industry. In 1999, Fisheries Renewal B.C. contributed several million dollars to projects aimed at restoring habitat, diversifying the fisheries and

**External funding sources are needed.**

creating fisheries-related employment. The establishment of a joint Fisheries Renewal Advisory Board under the *Canada–British Columbia Agreement on the Management of Pacific Salmon Fishery Issues* would, however, increase the effectiveness of the development and delivery of both parties' salmon habitat and enhancement programs.

**20.109 As a basis for setting priorities in the allocation of resources to meet the demands of the New Direction policy, the Department should complete risk assessments in areas where management information is incomplete or lacking.**

***Department's response:*** *Fisheries and Oceans agrees. The salmon assessment frameworks being prepared (see response to paragraph 20.56) will be critical to identify priorities. In addition, the Department is initiating a review of the salmon management process. Resources, both from budget reallocation and from other sources, will be directed in accordance with priority.*

## Conclusion

**20.110** The past management of Pacific salmon and its habitat, together with factors beyond the Department's control, have resulted in serious declines in many stocks. This has posed a threat to the future sustainability of the fisheries. The Department has responded by releasing a new sustainable fisheries policy that focusses on conservation and the protection of diversity of salmon stocks. It is taking action to overhaul its fisheries management regime, but needs to overcome obstacles such as a limited information base and poor relations with stakeholders. The Department's challenge is to conserve stocks while providing opportunities for harvesting. Appropriate action to protect the genetic diversity of existing stocks will likely mean that fisheries will be curtailed in the short term in the interests of rebuilding the resource base to sustain fisheries in the future.

# About the Audit

## Objective

Our audit objective was to determine whether the Pacific salmon fisheries management process and practices of the Department of Fisheries and Oceans are ensuring the conservation of the resource base and the sustainability of the Aboriginal, commercial and recreational fisheries that depend on it.

## Criteria

We expected that the Department would have:

- adopted an appropriate sustainable approach, including acquiring and applying the necessary scientific information and contemporary knowledge, to fulfil its mandate to conserve and protect the Pacific salmon resource base and, where necessary, restore its abundance and the diversity of stocks;
- ensured that all sectors were co-ordinating their operations and communications in the development and implementation of management plans for the Aboriginal, commercial and recreational fisheries, using resource conservation objectives to achieve sustainable development; and
- negotiated agreements or entered into arrangements with stakeholders, both international and domestic, to ensure the conservation and protection of Canada's Pacific salmon resource and the equitable distribution of fish that are surplus to spawning requirements.

## Approach

Our audit included meetings or conversations with departmental staff in headquarters in Ottawa, in the regional office in Vancouver, and in district offices and research facilities. We reviewed Fisheries and Oceans files and documentation, and made formal requests for specific information from departmental staff in headquarters and the regional office. A large amount of material was obtained through the review of external and internal reports.

## Audit Team

Assistant Auditor General: Don Young
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## Appendix A

# Coho Case Study — The Development of a Fisheries Management Crisis

**Declines in coho stocks first became apparent in the mid–1970s to mid–1980s**

The Department of Fisheries and Oceans has documented the coho problem since the 1970s. Activity in the coho fisheries was intense back then, with exploitation rates often exceeding 70 percent. Declines in wild escapements were noted by the Department, particularly in the early-run Skeena River stock. The Department took some measures, such as the closure of directed net fisheries in the Skeena and Fraser Rivers, but otherwise coho fisheries were not closely regulated. Coho research focussed on freshwater habitat and environmental concerns, as it was widely believed that coho was a suitable indicator species of habitat impacts.

**Further declines in coho stocks in the mid–1980s through the mid–1990s increased concern about their conservation**

The Department noted that the abundance of wild coho was clearly declining throughout southern British Columbia during this period. Declines in the upper Skeena River were described as a conservation concern. However, assessment advice based on information at the time indicated that the aggregate stock in southern British Columbia was only moderately over-exploited.

Catch and escapement records revealed the dramatic decline in wild coho. For example, the Department noted that recreational and commercial catches of wild coho dwindled by an average of about 66,000 fish per year between 1976 and 1989. Overfishing and habitat loss were believed to be responsible for this decline. The proportion of Strait of Georgia coho being caught (the exploitation rate) averaged 10 percent higher than the 65 to 70 percent considered optimal for sustaining stocks.

During the late 1980s there were increasing concerns about coho abundance in populations around the Strait of Georgia and in the upper Skeena River. There was a growing recognition by the Department that exploitation rates nearing 80 percent of southern British Columbia stocks were not sustainable. These concerns led to the initiation of a coho conservation program in southern British Columbia and some further management actions in northern sockeye fisheries.

In 1989, the Department formed the Coho Steering Committee to address this major problem of declining coho stocks. The wild coho rebuilding plan was designed to balance environmental effects through a program that would integrate habitat management, harvest management and enhancement. Together with fishery advisors, the Coho Steering Committee began to develop a plan for rebuilding wild coho stocks. However, in 1992 the Committee stated that wild coho stocks in the Strait of Georgia and the Fraser River were still declining.

**In 1995 the Department's scientists warned managers of serious problems with coho**

It was not until 1995 that departmental managers began to pay serious attention to coho stocks off the south coast of British Columbia. Even then, not enough was done to address the rapid declines in survival rates. For example, exploitation rates for coho stocks in the south of the province were 70 to 80 percent before 1994. In 1995, the rate was reduced to 60 percent.

The Department's Pacific Stock Assessment Review Committee (PSARC) recommended that the exploitation rates for Strait of Georgia coho be cut from between 65 and 70 percent to below 65 percent for the 1996 fishing season. Fishery managers were warned of continuing low survival rates for Strait of Georgia coho stocks.

The PSARC continued to warn management about the low marine survival rate expected to continue in 1997. Some coho stocks were not expected to achieve conservation goals, even with no fishing. The PSARC urged caution in exploiting southern British Columbia coho stocks. As a result of the advice, there was no directed commercial coho fishery in southern British Columbia for the 1997 fishing season. In the north, the harvest rate was reduced to 53 percent. The recreational fishery remained open with reduced daily catches of coho. These actions brought the exploitation rate for coho down to between 20 and 40 percent overall.

**Calls in 1998 for drastic action to conserve coho**

The PSARC advised managers to use extreme caution in applying forecasts of coho abundance in 1998. The Skeena and Thompson River coho stock aggregates were extremely depressed, and would continue to decline under current marine survival conditions even in the absence of any fishing mortality. Some individual spawning populations were at high risk of biological extinction. The status of the Strait of Georgia and lower Fraser stock aggregate was also deteriorating because of continuing low marine survival rates.

**Action finally taken to conserve existing stocks and develop a recovery plan for those stocks at risk**

On 19 June 1998 the Minister of Fisheries and Oceans recognized that a coho crisis existed. He announced the Salmon Management Plan to respond to the decline in abundance. The Plan was based on protecting upper Skeena and Thompson River coho. Fishing was stringently limited in areas where these coho were prevalent, in effect closing the recreational and commercial coho fishery. The new policy, *A New Direction for Canada's Pacific Salmon Fisheries*, makes selective fishing mandatory. If this is ineffective, fisheries will be closed.

**Source:** Based on documentation of the Department of Fisheries and Oceans and the Pacific Fisheries Resource Conservation Council.

## Appendix B

# Conditions Necessary to Achieve Sustainable Fisheries

- An ecosystem-based management system has been adopted. As a result, the watershed is the essential stewardship unit and local watershed interests are directly involved in fisheries and environmental management decisions.
- Salmon escapement goals (how many fish must return to a stream to sustain the run) are established by using a habitat-based conservation approach and consider non-human uses of salmon and the ecosystem (biodiversity, wildlife, etc.). In addition, managers recognize the inherent variability in the productive capacity of freshwater, estuarine, and marine habitats, and the impact of this variability on salmon populations.
- Resource managers have adopted a risk averse approach to harvest management, which minimizes the potential for not achieving escapement goals.
- Salmon fisheries have been restructured to reduce mixed-stock fisheries, increase terminal fisheries, emphasize selective harvesting methods, and expand stock-specific fisheries.
- Decisions on the allocation of surplus salmon and steelhead production are independent from biological decisions that establish the total allowable harvest of these resources.
- The emphasis of artificial propagation has shifted from salmonid production (to support harvests) toward salmonid restoration (helping to rebuild weaker stocks).
- The social and political environment has changed to focus decision-making authority in watersheds, to provide incentives for stewardship initiatives, and to establish regional and international oversight for salmon production.

**Source:** Sustainable Fisheries Foundation. *Towards Sustainable Fisheries: Building a Cooperative Strategy for Balancing the Conservation and Use of West Coast Salmon and Steelhead Populations*. 1996.

# Report of the Auditor General of Canada to the House of Commons – 1999 Table of Contents

## Volume 1 – April 1999


| Chapter | |
|---|---|
| | Foreword and Main Points<br>Other Audit Observations |
| 1 | Correctional Service Canada – Reintegration of Offenders |
| 2 | Revenue Canada – Underground Economy Initiative |
| 3 | Statistics Canada – Managing the Quality of Statistics |
| 4 | Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner |
| 5 | Collaborative Arrangements: Issues for the Federal Government |
| 6 | Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities |
| | **Chapters 7 & 8** |
| 7 | The Atlantic Groundfish Strategy: Contributions and Grants |
| 8 | The Atlantic Groundfish Strategy: Follow-up |
| 9 | Management of Science and Technology Personnel: Follow-up |
| 10 | Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up |


## Volume 2 September 1999


| Chapter | |
|---|---|
| | Matters of Special Importance – 1999<br>Foreword and Main Points |
| | **Chapters 11 & 12** |
| 11 | Agriculture Portfolio – User Charges |
| 12 | Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research |
| 13 | National Defence – Hazardous Materials: Managing Risks to Employees and the Environment |
| | **Chapters 14 & 15** |
| 14 | National Health Surveillance: Diseases and Injuries |
| 15 | Management of a Food-Borne Disease Outbreak |

# Report of the Auditor General of Canada to the House of Commons – 1999 Table of Contents

## September 1999 (cont'd)


| Chapter | |
|---|---|
| 16 | Revenue Canada – Goods and Services Tax: Returns Processing and Audit |
| 17 | Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit |
| 18 | Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services |
| 19 | Industry Portfolio – Investing in Innovation |


## November 1999


| Chapter | |
|---|---|
| 20 | Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries |
| 21 | Financial Information Strategy: Departmental Readiness |
| 22 | Attributes of Well-Managed Research Organizations |
| | **Chapters 23 & 24** |
| 23 | Involving Others in Governing: Accountability at Risk |
| 24 | The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing |
| 25 | Preparedness for Year 2000: Final Preparation |
| | **Chapters 26 & 27** |
| 26 | National Defence – The Proper Conduct of Public Business |
| 27 | National Defence – Alternative Service Delivery |
| 28 | Canadian International Development Agency – Financial Controls Over Projects |
| 29 | Federal Support of Health Care Delivery |
| 30 | Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices |
| 31 | Department of Foreign Affairs and International Trade – Delivery of Capital Projects in Four Missions |
| | **Other Observations and Appendices** |
| 32 | Follow-up of Recommendations in Previous Reports |
| 33 | Other Audit Observations |
| | Appendices |

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